



TAMPERE UNIVERSITY OF TECHNOLOGY

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**CROWDFUNDING IN FINLAND – A NEW ALTERNATIVE
DISRUPTIVE FUNDING INSTRUMENT FOR BUSINESSES**

Master of Science Thesis

Prof. Dr. Artur Lugmayr has been appointed as the examiner at the Council Meeting of the Faculty of Business and Technology Management on June 15, 2013.

ABSTRACT

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Crowdfunding has gathered great momentum around the world as an alternative entrepreneurial financing mechanism with an estimated 2500 Million Euros of fundraising in 2012 alone. The phenomenon is emerging in Finland currently and seen the emergence of four active Finnish platforms from 2012. The recent events surrounding the successful Crowdfunding campaign by movie director Timo Vuorensola from Finland has created a positive vibe. However the controversy of a book campaign by Senja Larsen on Kickstarter raised questions about Crowdfunding and its sustainability in Finland. Therefore, the thesis explores the role of Crowdfunding in a Finnish context and analyze if it would be disruptive to traditional financing mechanisms in Finland.

This research involves in-depth analysis of literature published on entrepreneurial finance and Crowdfunding. Furthermore, in-depth interviews with the three Crowdfunding service providers in Finland are carried out. In addition, interviews of an experienced banker, a senior government representative and a financial service provider are carried out to give a holistic picture. Overall, the threefold approach is taken to get a realistic understanding of fund raising environment in Finland and the impact Crowdfunding could make in Finland.

In the results of this study, the gap in the current entrepreneurial finance situation in Finland is showcased. Crowdfunding positions itself as an alternate mechanism rather than disruptive, however with some apprehensions. The understanding of Finnish fundraising laws and affinity of the Finns towards localized services proved to be the main drivers for Finnish CF. Educating the Finnish entrepreneur and the crowd regarding the risks, benefits and legalities of Crowdfunding is the key for success of Crowdfunding in Finland. Overall the study showcases positive and welcoming sentiment towards Crowdfunding in Finland.

PREFACE

This study explores the phenomenon of Crowdfunding in Finland and illustrates its position in the Finnish financial and entrepreneurial set up. Crowdfunding is a new phenomenon and hence academic literature on this topic available is very scarce. Moreover, research on Crowdfunding in Finland is almost nonexistent, hence identifying and analyzing theories posed to be a big challenge in this research. This was achieved by examining articles, blogs and entrepreneurial finance literature thus extracting information.

The core of this research relies heavily on interviews with the six interviewees also supported by in-depth conversations and consulting help from my supervisor. Therefore I extend my gratitude to Prof. Dr. Artur Lugmayr for his guidance, constant encouragement and support. I would like to thank all the interviewees for their time and valuable inputs. The idea of researching on Crowdfunding came to me because of my discussion with Ms. Anka Liszka and I would like to thank her for that. I also thank my friend Mr. Kaveh Genio for giving me the necessary recording equipment to carry out the interviews. Finally, I would like to also thank all my friends and family members for their continuous support.

Tampere, 16.09.2013

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ABBREVIATIONS AND NOTATION

BA	Business Angel
CF	Crowdfunding
CFP	Crowdfunding Platform
F & F	Friends and Family
FIBAN	Finnish Business Angel Network
FVCA	Finnish Venture Capital Association
GEM	Global Entrepreneurship Monitor
VC	Venture Capitalist

1 INTRODUCTION

1.1. Emergence of Crowdfunding

In the last five years, Crowdfunding phenomenon in America and Europe has been a significant source of financing new businesses with an estimated 2500 Million Euros raised in 2012 alone as shown in Figure 1. Crowdfunding is getting bigger in terms of number of active platforms and funds raised. It is growing at 63% annually over the last three years (*Ellenoff, 2012*). According to CNBC (2013), through Crowdfunding companies and individuals worldwide raised \$2.7 billion in 2012. This has been elaborated in Figure 1.

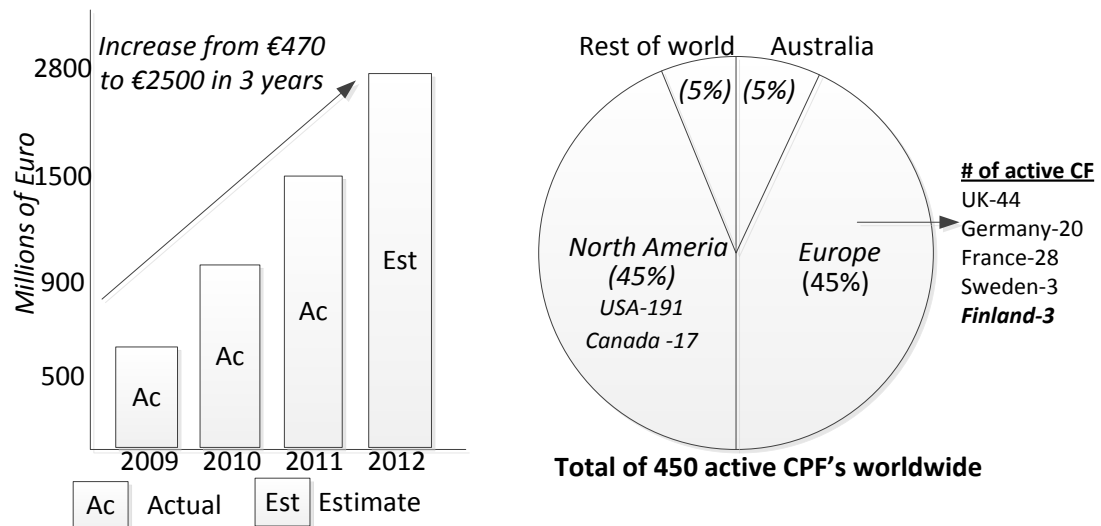


Figure1 Growth of Crow funding market around the world (Ellenoff, 2012).

The popularity of Crowdfunding has been increasing and with over \$2.7 billion raised in 2012, it might give other traditional funding mechanisms a serious threat. The popularity of sites like Indiegogo and Kickstarter to fund a new venture especially in US and UK has shown the power of the crowd to fund raisers and entrepreneurs. According to theguardian (2013), Barack Obama secured \$137m during his campaign for the US presidency in 2008 through Crowdfunding with majority of the investors contributing less than \$200 individually, thus highlighting the power of the crowd. Besides this well-known example from a political campaign, Crowdfunding can have many other motives like social causes, opening a restaurant, investing in an emerging innovation and new business venture. Founders and entrepreneurs have been able to secure funds using this model.

The phenomenon of CF has gained momentum in Finland and seen the emergence of four active Finnish platforms from 2012. Crowdfunding is not new to Finland though it received media attention through the recent controversy of a book campaign by Senja Larsen on Kickstarter, as a result of legal problems with the Finnish Police. As a matter of fact, director Timo Vuorensola from Finland raised 686,270€ for the movie Iron sky budget through Crowdfunding in 2012. In spite of the recent controversies, Crowdfunding is gaining popularity in Finland and the launch of Crowdfunding platforms catering directly to the Finnish market has caught the interest entrepreneurs, researchers and investors around Finland.

1.2. Research Objectives

From the previous discussions, it is clear that Crowdfunding has created a vibe in the business and entrepreneurial community in Finland. The emergence of social media as a powerful business tool has added to this vibe, but several questions remain unanswered and need to be explored. This research focusses on Crowdfunding in Finland and tries to answer some of these questions in Finnish context. Therefore the objective of this research is “*to explore the role of Crowdfunding as disruptive fund raising model in Finland*” as illustrated in Figure 2.

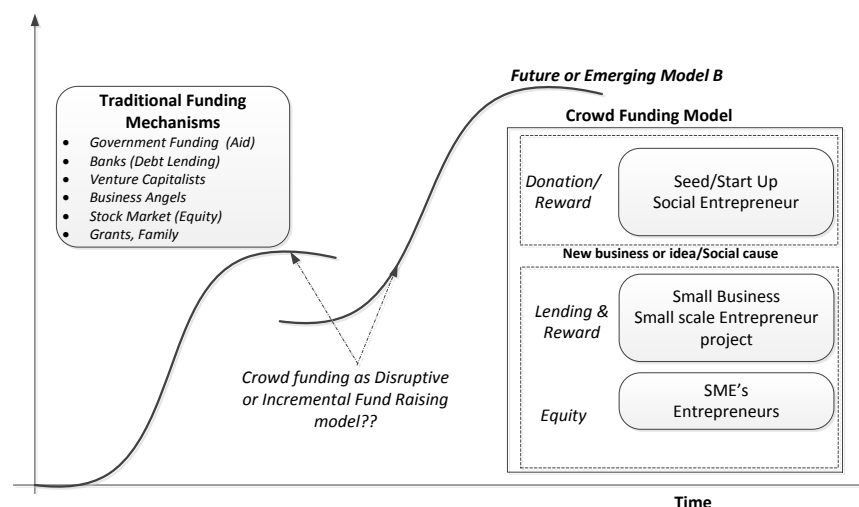


Figure2 Is Crowdfunding disruptive to traditional Fund raising?

In particular the study tries to answer the following research questions:

1. What is Crowdfunding (CF)? What are the different models in Crowdfunding? How does Crowdfunding process work?
2. What is the situation of current entrepreneurial finance in Finland? Is there a need for Crowdfunding in Finland? If so, what are the drivers?
3. What is the current state of Crowdfunding in Finland? Would Crowdfunding be disruptive to established fund raising models in Finland?
4. What are the influencers and factors affecting Crowdfunding in Finland?

By answering the above questions, it would be possible to understand the impact Crowdfunding would make in the Finnish business community. The research would also explore the current “fund raising or financing” situation in Finland and position Crowdfunding going forward. This research involves in-depth analysis of literature published on innovation and entrepreneurship environment in Finland. Furthermore, in order to get an “insider” perspective, in-depth interviews with the founders of three Crowdfunding service providers in Finland is carried out. In addition, interviews of an experienced banker, a senior government representative and a financial service provider are carried out to provide us with a holistic picture on investor sentiment. Overall, the threefold approach is taken to get a realistic understanding of fund raising environment in Finland and its impact on CF in Finland.

1.3. Research Structure

The study discusses two main aspects, them being entrepreneurial finance and Crowdfunding. The study has been presented in seven chapters -

- Chapter 1 gives a brief background on Crowdfunding and states the objectives of conducting this study.
- Chapter 2 explains the research methodology used to achieve the objectives. Qualitative techniques consisting on literature study and interviews is used in this study.
- Chapter 3 introduces the theoretical aspects on entrepreneurship and entrepreneurial finance. It focuses on finance available to new ventures and finally discusses entrepreneurship environment in Finland based on literature published till date.
- Chapter 4 discusses Crowdfunding, explaining the various aspects of Crowdfunding as a concept. It also discussed practical aspects of Crowdfunding and positions it in the new venture financing market.
- Chapter 5 uses the theoretical discussion in previous two chapters and empirical data collected through interviews to answer the questions proposed earlier. The chapter presents various perspectives and arguments trying to achieve the objectives.
- Chapter 6 combines the research analysis and summarizes the results. It presents also presents an integrated framework for Crowdfunding in Finnish context. This chapter also presents the limitations of this study.
- Finally, chapter 7 presents the conclusion of this research.

As discussed in this section, the next chapter discusses theoretical aspects of entrepreneurship and entrepreneurial finance, further introducing it in Finnish context.

2 RESEARCH STRUCTURE & METHODOLOGY

2.1. Management Research Methods

In the business world, different research approaches are used depending on the nature and complexity of the problem in hand. Williams (2007) defines business research as a process of systematically defining the objective followed by effectively managing the data and showcasing the findings within established frameworks and guidelines (Lasrado, 2013).

The three common approaches for research information gathering are qualitative, quantitative and mixed methods. According to Williams (2007) researchers typically select the quantitative approach to respond to research questions requiring numerical data, the qualitative approach for research questions requiring textual data, and the mixed methods approach for research questions requiring both numerical and textual data (Lasrado, 2013). Moreover the question of quantitative or qualitative methodology arises through collection of information, its analysis and finally the writing process (Marvasti & Silverman, 2008).

In this research, qualitative methods have been applied to achieve the objective. Gummesson (1993) describes five qualitative research methods with them being existing data, questionnaires, interviews, observation and finally, action science. He also differentiates observation as direct and participant, where in participant observation the researcher gets personally involved in field work, thus knowing the culture personally as compared direct observation (Lasrado, 2013). He also mentions that interview could be formal with a fixed set of questions or informal like an open conversation.

This section gives a brief introduction about methodologies used in management research. The next section gives an in-depth process of how the research process took place.

2.2. Research process

The research method adopted for this paper primarily uses qualitative research techniques. During this study existing material and literature study is used to build a strong case followed by informal interviews to gather empirical data. The information used is gathered from published academic papers, industry journals and other research materials along with the current information from blogs and websites of Crowdfunding platforms.

This research uses qualitative techniques namely, studying **existing literature** and conducting **informal interviews** to achieve the objective. According to Gummesson (1993), in most cases there is abundance of material available through various sources like books, journals, media reports, photos, films and so on. However it is important for the researcher to identify existing literature relevant to the current study. Therefore in the context of this thesis, the literature has carefully chosen pertaining to entrepreneurship and Crowdfunding in order to build a strong case and thus develop a theoretical framework to design logical flow for the interviews.

Another important component of the research process are informal interviews with significant relevant personalities. According to Gummesson (1993) this is the most common method of collecting empirical data. In addition to data collection, the sentiment through body language is obtained via face to face interviews. Gummesson (1993) portrays non formal interview as a medium of providing the researcher with in-depth opinions from the interviewee with more subjective answers, thus creating a broader and clearer perspective (Vaithianathan, 2010). However, there is always a risk of the interviewee not giving out the true opinion by being diplomatic (Gummesson, 1993; Vaithianathan, 2010).

The research study took place over a period of six months and could be split into four parts as highlighted in figure 3. The first stage was identification of the area of research and defining the objectives. This was done over a period of one month and involved a lot of literature study and discussions with the supervisor. Once the objectives along with questions that the study would answer were established, the focus was on identifying the suitable research methodology. The methodology was set as a combination of literature study and interviews and the tone set for execution.

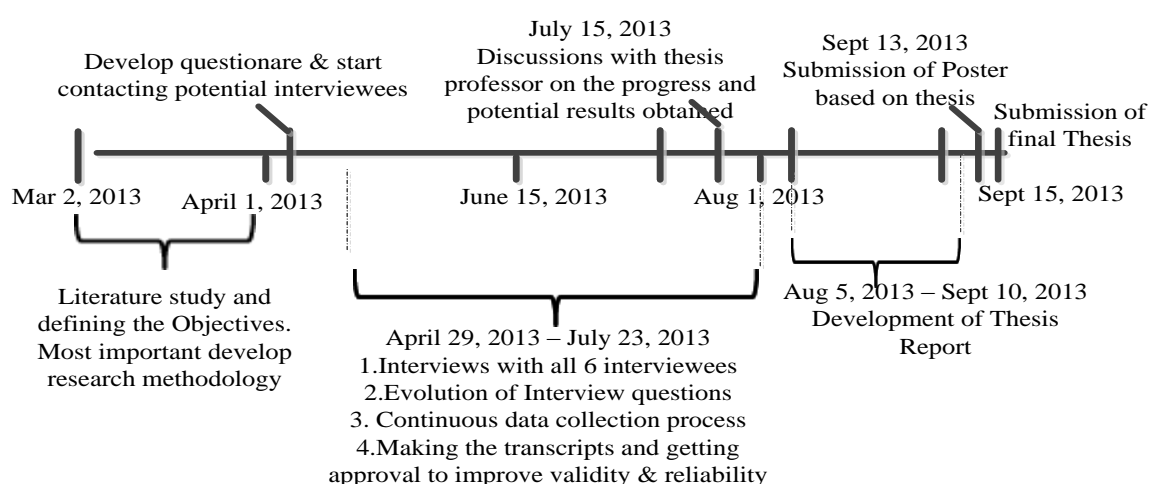


Figure3 Timeline for the thesis & research process.

Based on the objectives of the research, the interview questions were designed and potential interviewees were contacted in the second stage. The idea was to get opinions

of decision makers directly related to the scope of the thesis. Thus, higher management representatives and founders of Finnish Crowdfunding Platforms, higher management personal from government funding agencies, Professional lawyers, bankers and entrepreneurs providing disruptive financial services were contacted. However, only six interviewees agreed to talk to the researcher and have been listed in Table 1 with the mode and date of interview also highlighted.

Table 1 List of Interviewees.

Assigned Identification	Name, Organisation & designation	Date & Mode of Interview
Interviewee 1	Pauliina Seppälä, Mesenaatti.me, Founder	Informal location, face to face meeting, 29 th April 2013
Interviewee 2	Kristiina Pääkkönen, Fundedbyme, Country Manager – Finland	Over Skype, 22 nd July 2013
Interviewee 3	Lasse Mäkelä, Invesdor, Chairman of the Board, co-founder	Office in Aalto, face to face meeting, 29 th April 2013
Interviewee 4	Kari Komulainen, Tekes, Director, Growth companies	Over the phone, 14 th June 2013
Interviewee 5	Vesa Leinonen, Nordea Bank, Customer Relationship Manager	Office in Nordea, face to face meeting, 5 th July 2013
Interviewee 6	Kristoffer Lawson, Holvi, Co-Founder	Over Skype, 2 nd May 2013

The third stage involved conducting the interviews. The interviews were kept informal and open ended in order to get a broader perspective and drive a discussion. Each interview lasted around 30 to 60 minutes and was recorded with permission from the interviewees.

The interviews with representatives from Crowdfunding platforms lasted longer than others as operational details of CF were discussed with them in detail. Three of interviews were conducted by meeting in person and the rest were conducted via Skype or phone. The recordings of the interview were transcribed and have been provided in Appendix 2. Final stage of the research involved analysing these interviews and developing the thesis report.

2.3. Validity and Reliability

This study discusses the dimensions of Crowdfunding in Finnish context. It also attempts to explore if CF would disrupt other traditional financing mechanisms. Representatives from three active Finnish Crowdfunding platforms, one government representative, one professional banker and an entrepreneur are interviewed as explained earlier. This section examines the validity and reliability of the study.

According to Gummesson (1993), validity is the directly correlated to how precise a researcher can be i.e., how close a researcher could get to reality and how efficiently he/she could interpret it. Moreover, Marvasti & Silverman (2008) claims that validity of research could be doubted when the researcher makes no attempt to deal with contrary cases and tells only one side of the story. They also mention that researchers conducting qualitative study should critically investigate all of their data and not just choose favourable examples or cases. Now that the concept of validity in qualitative research is understood, the validity of the current study is explained here. This study defines its objective of examining CF in Finland. Keeping this context in mind, three active Crowdfunding platforms operating in Finland are interviewed. In addition to this, opinions of a government representative, a banker and an entrepreneur are considered, thus taking a wide perspective. The multi-dimensional approach of this study encouraged conflicting opinions and the same has been discussed going forward. This approach increased the validity of this thesis on analysing CF in Finnish context.

Furthermore, reliability is how many times the researcher could repeat the same results i.e., how accurate his/her results are (Gummesson, 1993). In qualitative research, Marvasti & Silverman (2008) mention that tapes and transcripts of interviews increase the reliability of the data presented by the researcher. Moreover, they state that recordings and transcript are better than just field notes as they are in public domain and are open for further scrutiny by the scientific community. In addition to this, detailed transcripts provide an opportunity to inspect details without being limited to extracts chosen by the first researcher (Marvasti & Silverman, 2008). Therefore, the author in this study recorded all the interviews and transcribed them (Appendix 2). All the relevant discussions from the recordings are transcribed, thus increasing the reliability of the empirical data.

The factors influencing the validity and reliability of the empirical data used in this research has been discussed in this sub chapter. The next two chapters discuss the theoretical perspectives of entrepreneurship and Crowdfunding followed by the third where the empirical data collected from interviews are used to build a framework.

3 NEW BUSINESS VENTURE AND FINANCING

3.1. New Business Venture

3.1.1. Exploring opportunity

A new business venture is directly correlated to identifying opportunity either with respect to technology, innovation or just satisfying market demand. Researchers often leave the definition of opportunity open to interpretation of the reader. Therefore in the context of this thesis the definition proposed by Barringer & Ireland (2010) has been adopted. According to them, business opportunity as a bunch favorable environmental trends comprising of economic, social, technological, political and regulatory forces that create a need for a new business. Figure 4 illustrates this relationship wherein an opportunity created by environmental trends is recognized by an individual or entrepreneurial team working independently or for a corporation thus resulting in a new business, product or service idea.

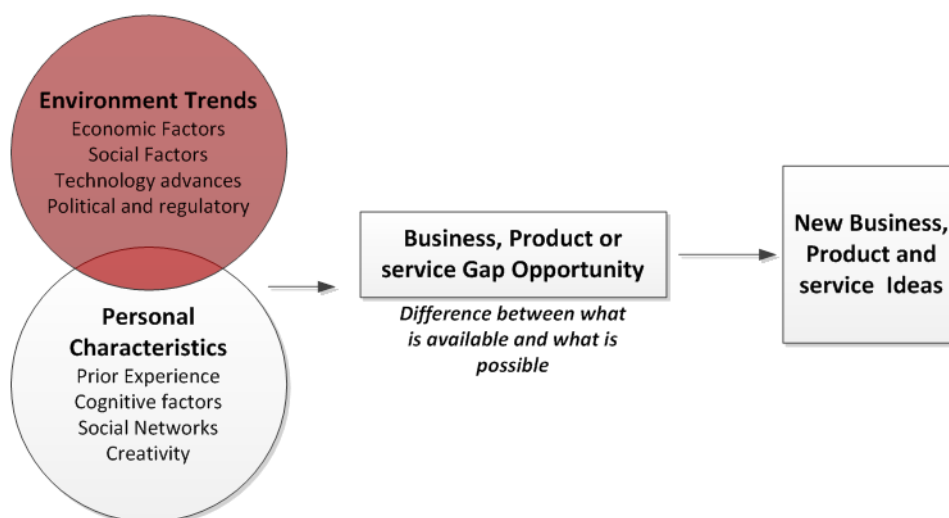


Figure4 Opportunity recognition & new venture (Barringer & Ireland, 2010)

The point of view showcased is also supported by Thompson (1999) wherein it is stated that business creation is about spotting and exploiting opportunities. According to Stevenson & Jarrillo-Mossi (1986), ability of an individual to first recognize and then have to desire to pursue opportunity is entrepreneurship. He also states that perception of opportunity is relative which supports the view illustrated in Figure 4. Therefore the process of new business idea turning into a business venture depends on two major factors namely (i) Environmental trends (both current and future) as illustrated in Figure

5 and (ii) Entrepreneurial characteristics of an individual, group of people or organization running the business.

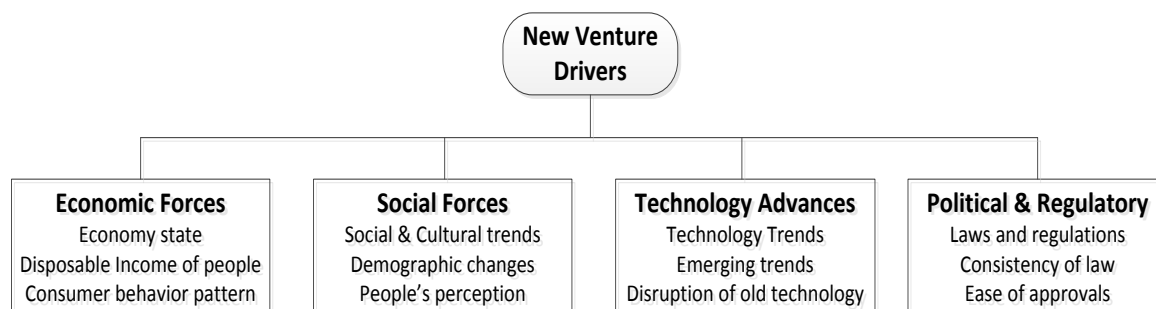


Figure5 Forces driving formation of new ventures

The four major drivers influencing business opportunity generation are classified into four types by Barringer & Ireland (2010), as illustrated in Figure 5. According to them, it is important for entrepreneurs to spot business, product and service opportunity gaps by understanding the environmental drivers influencing them. Thompson (1999) states that new initiatives start only when an opportunity is spotted or engineered and someone manages to exploit it. He further states that initial success of the idea is highly dependent on the **personal characteristics** of the individual, who is the champion of the idea. However growth beyond initial success would need management skills, thus giving rise to an organization.

According to Barringer & Ireland (2010), **prior experience** influences entrepreneurs in business opportunity recognition, with over 43% of the entrepreneurs generating new business ideas while working for companies in the same industrial segment as illustrated in Figure 4. This view is also supported by Thompson (1999), wherein he states that many successful entrepreneurs have a similar background. **Social networks** or networking is another trait that influences business opportunity exploitation. Individuals with substantial social and professional network would be exposed to more ideas and gain access to larger quota of resources (Barringer & Ireland, 2010) with Thompson (1999) stating that successful entrepreneurs are always good networkers. **Cognitive factors** as listed by Barringer & Ireland (2010) are directly related to entrepreneurial ability to notice opportunity and this along with **creativity** are among the important traits of an entrepreneur is discussed in detail in the next section.

In this section it is established how opportunity recognition influences new venture establishment. The literature identifies environmental forces and entrepreneurial characteristics as the two important driving forces of new venture development.

3.1.2. Introduction to Entrepreneurship

The term “entrepreneur” has been used frequently in this thesis and hence in this section an attempt has been made to define the terms associated with it. In the USA,

entrepreneur is often defined as one who starts his own, new and small business, but *not every new business is entrepreneurial* or represents entrepreneurship (Drucker, 1985). Moreover the term “entrepreneurship” is associated to small business establishments, corporate entities, social causes, innovations and inventions.

Entrepreneurship is a dynamic process created and managed by an individual, which strives to exploit economic innovation to create new value (Murray, 1938 in Virtanen, 1996). There is abundant literature to support the thought that an entrepreneur is an individual (Barringer & Ireland, 2010; Thompson, 1999), however Schjoedt & Kraus (2009) suggests that significant number of new ventures are created and managed by entrepreneurial teams i.e., a group of individuals. Further according to Hubbard et.al (2013), *entrepreneurship may take place in small startups as well as large established firms*. They go one step ahead and suggest that an *entrepreneur may be the inventor, the financier, the manager, or somebody else entirely*.

From the view point presented above and within the scope of this thesis, a multidimensional characteristic is associated with every new venture. A new venture can be created and managed by an individual or team of individuals consisting of one or more characters illustrated in Figure 6. The matrix has been adopted to showcase each character by plotting innovative skills vs. the management or business know how skills.

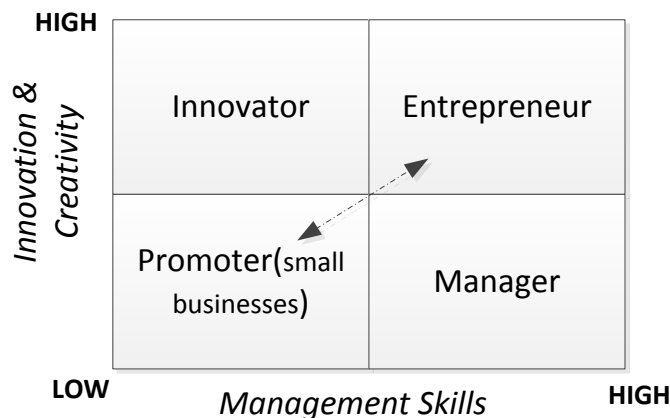


Figure 6 An entrepreneur, innovator or manager? (extended from Virtanen, 1996)

Innovators are usually associated with someone who invents or makes a discovery; in a technological set up usually associated with R&D person. According to Root-Bernstein (1989), Innovators are highly educated autodidacts, who specialise in breadth and display unusual range of practical and theoretical knowledge. They possess high level of innovative capability and problem solving skill set but lack in management skills.

Promoters as illustrated in Figure 6 have low level of innovation as well as management skills. There are usually associated with new and small business owners

who start a venture that neither has an innovation nor is entrepreneurial. Practically majority of the new businesses come under this classification. As illustrated in Figure 6, promoters or small business owners are often misconceived as entrepreneurs.

Entrepreneurs are the one with high level of creativity and innovation combined with high level of management skills (Virtanen, 1996) and the same has been shown in Figure 6. Furthermore, according to Drucker (1985), entrepreneurs innovate, with innovation being the specific instrument of entrepreneurship. He also states that innovation creates a resource which results in wealth creation. They are usually multidimensional and usually possess characteristics of **innovators** as well **managers** in running a business.

This section establishes the common terminology used in entrepreneurship literature. It establishes the fact that an entrepreneur might be an individual, but states that a venture can be created and managed by a team too. The next section explores different perspectives of new ventures and also introduces the financing problem these ventures face.

3.1.3. Entrepreneurship Motives

Entrepreneurial motives, specifically motivation for starting a new venture has been widely debated and researched. Segal et.al (2005) and Kirkwood (2009) discuss push-pull theory wherein motives are summarized under two categories i.e., pull or push. The “push” theory puts **need** as the main reason for entrepreneurship, stating individuals are motivated by negative forces like job dissatisfaction, unemployment, low salary and harsh work schedule to start their own venture. The “pull” theory argues that individuals become entrepreneurs seeking independence, self-fulfillment, wealth and other desirable outcomes. Segal et.al (2005) and Kirkwood (2009) further state that individuals with “pull” motives become successful entrepreneurs.

There has been a lot of literature analyzing personality traits and motivation of entrepreneurs, but with mixed and inconclusive results (Segal et.al, 2005). However Thompson (1999) claims that entrepreneurial activity and behaviour could be found everywhere; be it business, community initiatives (generally termed as social entrepreneurship), public sector initiatives, sport, military, theatre, art, music or exploration.

Entrepreneur’s intellectual capital is used to create one or more of financial capital, social capital, artistic or aesthetic capital as illustrated in Figure 7. Financial capital is nothing but wealth creation, with the theme of making money for the owners (Thompson, 1999). He states that social capital is creating something of value to the community or society, thus satisfying social needs. Artistic or aesthetic capital brings in feel good factor, enriching lives of people through work of art, music and culture, mostly imaginative but necessary for the society.

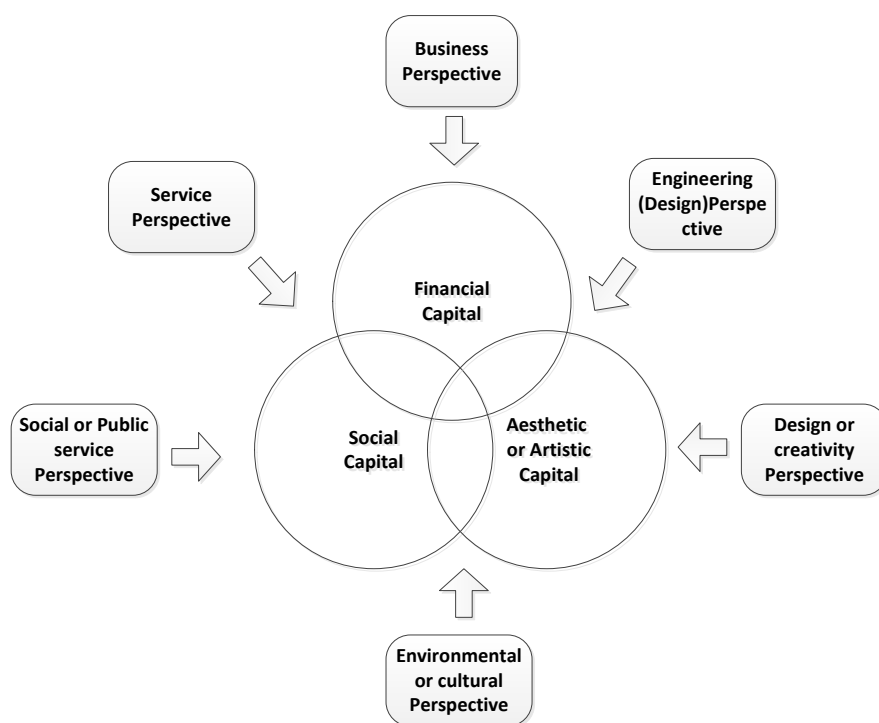


Figure 7 Entrepreneurial capital and different perspectives (Thompson, 1999)

Monetary motivations are usually assumed to be the main reason to start a business. However according to Kirkwood (2009) people are not always motivated by money to start a business. This makes understanding of perspectives illustrated in Figure 7 very important as it gives a clear idea of the motives to start a venture as well the desired outcome. An example to highlight public service perspective could be civic entrepreneurship wherein local authorities join with private funders to sponsor innovative projects. According to Thompson (1999) schools that take responsibility for their own resourcing often with help of parents and patrons could be under this category.

The “push” or “pull” aspects motivating individuals to participate in entrepreneurial activity would result in creation of at least one of the three capitals. Thompson (1999) has deliberately overlapped the circles as many entrepreneurial ventures clearly create two or even three of these capitals simultaneously. In addition to the capital created, most ventures feature a blend of the six perspectives as highlighted in the Figure.

This sub chapter, first, introduced the opportunity recognition and drivers of new venture establishment. Then, entrepreneurship was discussed wherein an entrepreneur was defined. Finally, motives of this section very clearly established the motives of entrepreneurship. The next sub chapter discusses financing associated with any business venture.

3.2. ENTREPRENEURSHIP AND FINANCING

3.2.1. Life cycle of a Venture

In this section we discuss the life cycle pattern of a business in terms of revenue, sales and management of entrepreneurship. There is a perception among researchers that most of new ventures fail within the first few years of their inception, but there has not been any research work to prove this. 90% of startups in the fail, 9 of 10 new businesses in the US fail (GBS, 2011), but in case of Finland this number is much lower. According to Statistics Finland almost 70% of the new ventures that started between 2006 and 2009 were operational even after a year. For the ventures that are successful, Barringer & Ireland (2010), Product Arts (2010) state that the typical life cycle can be divided into 5 stages and has been illustrated in Figure 8.

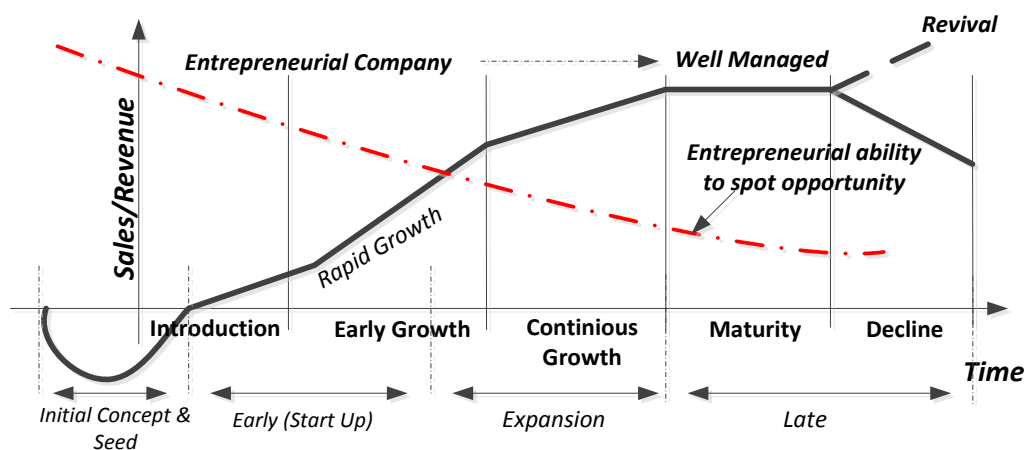


Figure 8 Life cycle of a business venture

- **Introduction** – Startup stage at Birth where it for the firm to establish. There are a lot of dramatic innovations seen during this stage. There is need for lot of capital investments, innovations and risks. However, there is a pre introduction stage termed as “**initial stage and seed**”.
- **Early Growth** – Sales Pick and usually attains break even during this phase. Innovations are less dramatic and sole purpose is to diversify in the market. The venture attains profitability during this stage.
- **Continuous Growth** – Sales continue to grow and entrepreneurial activity slows down. Risk taking is sidelined to achieve stable growth.
- **Maturity** - Sales stabilize and market saturates. The management is conservative and entrepreneurial activity takes a back seat.
- **Decline**- This is the stage when the business sees decline and sales drop drastically. Business is paralyzed by *combination of bureaucratic processes and lack of innovation capabilities* (Product Arts, 2010).

- **Revival** – This can occur during end of mature or start of decline stage, wherein drastic changes are made. It will involve strong decisions, capital investment and high degree of innovation.

According to Barringer & Ireland (2010), **initial concept or idea** is the starting point, but an entrepreneur has to understand the difference between idea and opportunity before launching the venture. This forms the critical stage before the concept is developed into a seed and when pushed further establishes itself as a **startup**. A seed stage venture and an early-stage start up can be differentiated through its business progress (Schreter, 2012). An early stage startup has a corporate organization in place, received one or more rounds of funding, has a tested prototype and is already generating revenues. Schreter (2012) also claims that patrons of startups would have developed better managerial skills than seed-stage entrepreneurs.

Any business or entrepreneurial venture that establishes itself successfully will go through the above mentioned stages and loses its entrepreneurial ability to become a bureaucratic organization run by managers rather than entrepreneurs (Stevenson & Jarrillo-Mossi, 1986). “Big businesses don’t innovate” and none of the major innovations came from large corporations (Drucker, 1985). The decline of this entrepreneurial ability within an organization is a directly result of low risk taking as it is perceived that growth and risk are contrary to each other as highlighted in the figure above. Therefore as the venture grows it loses its ability of recognize new opportunity. Further we also can infer that the venture needs outside capital in the introduction to keep it running and revival stage to innovate and make drastic changes.

The discussion in this section was to highlight the stages from inception to decline of an organization. The trajectory of entrepreneurial ability and the possible investment points at every stage has been explained. Carrying forward from this, the relationship entrepreneurship and financing has been discussed.

3.2.2. Characteristics of Venture Financing

Up until now the various characteristics of entrepreneurship have been discussed; including the motives of entrepreneurship. However, according to many studies financing is one of the most serious problems for small businesses (Virtanen, 1996). Further, Denis (2004) claims that *one of the most important issues facing entrepreneurial firms is their ability to access capital*. Therefore this section focusses on exploring the connection between entrepreneurs and financing.

According to (Yazdipour, 2011), entrepreneurs, managers and investors alike face problems in making (i) Entry/Seed Funding Decisions, (ii) Financing/Investment Decisions, and (iii) Growth/Exit Decisions. He also states that traditional theories hardly provide an *explanation on how entrepreneurs decide to start a new venture and how investors select such ventures for investment purposes*.

Furthermore, according to Drucker (1985), entrepreneurship is based on certain principles be it a large institution or an individual starting a new venture and this discipline is called “entrepreneurial management”. He also states that an entrepreneurial management in a new venture has four requirements – (i) Focus on market (ii) Financial Foresight (iii) Top management team (e.g. managers) and (iv) Entrepreneur’s role in the venture. Therefore in order to keep the concept simple and taking a broad perspective, within the scope of this thesis, it is assumed that **financial foresight** of cash flows, capital needs for investment, working capital and growth is necessary while making decisions and entrepreneur, managers and investors are merged as one and termed as “**Business & Decision makers**” as illustrated in Figure 9.

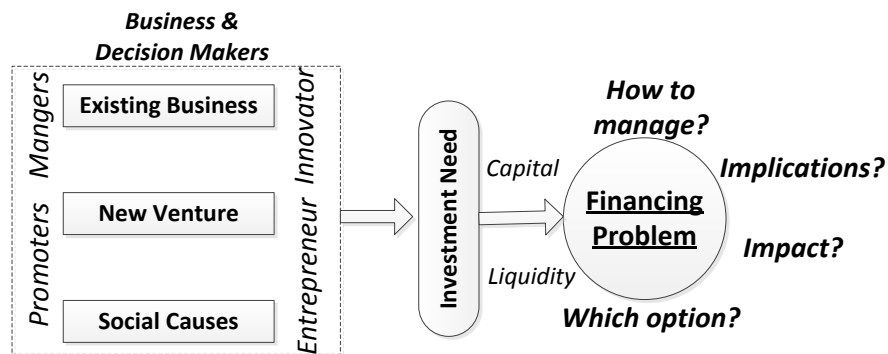


Figure9 Financing problem related to decision making

According to Virtanen (1996), need for investment results in a financing problem and the same has been illustrated in Figure 9. There is a strong link between the characteristics of the decision maker, investment need and the type of finance chosen. Based on the entrepreneurial features and motives, Virtanen (1996) establishes a matrix in Figure 10 characterising various types of finance with respect to skills of the entrepreneur, size of the investment, risk involved and the innovation and creative capital of the project or venture.

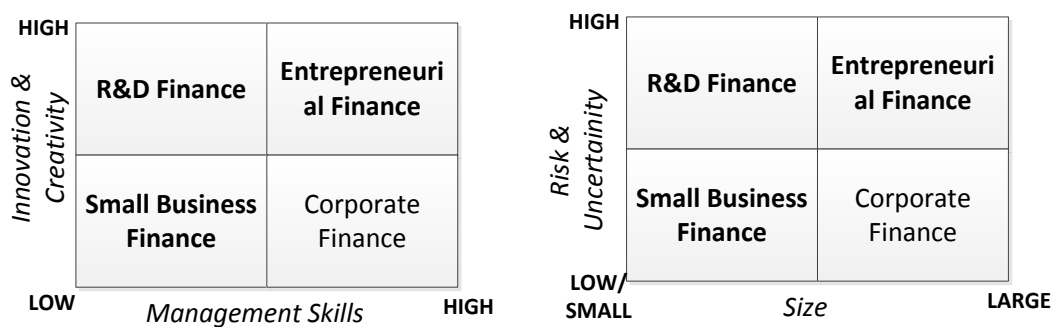


Figure10 Typology of finance (Virtanen, 1996)

Virtanen (1996) clearly defines **entrepreneurial finance** as the finance offered to ventures during the phase they are between opportunity recognition and IPO (they are listed in the stock market). According to him **corporate finance** is for large ventures that have the capability to get listed in the stock exchange. Sapienza et.al (2003) uses the principles of agency theory to differentiate entrepreneurial finance from corporate finance wherein they assign the roles of principal and agent to investors and managers, respectively. Entrepreneurs play the role of both the agent and principal, as in most cases they hold ownership rights in the venture. In a corporate venture, the managers take finance decisions on behalf of the owners or board of directors (Sapienza et.al, 2003). Thus in entrepreneurial finance, the entrepreneur assumes agency risk of both agent and principal, therefore positioned high both in management skills as well risk and uncertainty of finance as illustrated in the Figure.

R&D finance is usually associated with innovators predominantly generating artistic or atheistic capital with an engineering, design or creative perspective and require high level of innovation and creativity. As suggested by Root-Bernstein (1989) most innovators lack managerial skills to manage the growth of an innovation launched in the market. Virtanen (1996) states that most successful innovators keep concentrating on R&D even after the venture is launched and need a capable manager to pursue growth. Therefore, R&D finance involves high risk and uncertainty as they are not professionally managed, but on the other hand the size of the investment is usually small as compared to entrepreneurial venture finance.

All small businesses are not entrepreneurial (Drucker, 1985) and the same rule applies to finance. According to Virtanen (1996) small businesses are usually associated low level of creativity and management skills alike. The size of the investment is comparable with R&D finance, but the venture is ordinary and lacks potential to attract creative capital and talent. Figure 10 however clearly positions **entrepreneurial finance** as involving high risk and uncertainty like R&D finance, but surpasses the it as compared with the size of investment (Virtanen, 1996). He states that of an entrepreneur would require high management skills in addition to the skills of an innovator to induce entrepreneurial finance.

To summarize this section, the creativity, innovation and management skills of the decision makers (entrepreneurs, innovators or managers) play a crucial role in inducing the various financing options (Virtanen, 1996). The size of finance induced is a direct result of the growth and development orientation path chosen by the ventures.

3.2.3. Financing cycle and Funding Options

Up until now the relationship between financing and entrepreneurship was established using Virtanen's typology of finance matrix. This section discusses aspects of financing a venture throughout its lifecycle and the options available in the financing market

answering the following questions – *What are the financing options available to entrepreneurial ventures at various stages of their lifecycle?*

Virtanen (1996) defines Entrepreneurial finance as a high risk and high growth proposition. According to him, entrepreneurial finance is a dynamic process wherein external equity plays a major role. “Bootstrapping finance” and initial grants can be included in entrepreneurial finance to convert an opportunity into a seed. However Virtanen (1996) claims that scarcity of internal resources will eventually direct an entrepreneurial growth oriented venture towards equity capital.

According to Barringer & Ireland (2010), most entrepreneurial ventures need to raise money during their life cycle to tackle cash flow challenges, capital investments and lengthy product development cycles. Based on need and stage of the venture, they categorize them into sources of personal funding, raise external financing like debt or equity and other creative sources of financing and the same has been illustrated in Figure 11. The discussion has been limited to mostly entrepreneurial finance (initial concept, seed, start up or early expansion) within the scope of this thesis, thus completely ignoring corporate finance (IPO, Mergers or large loans).

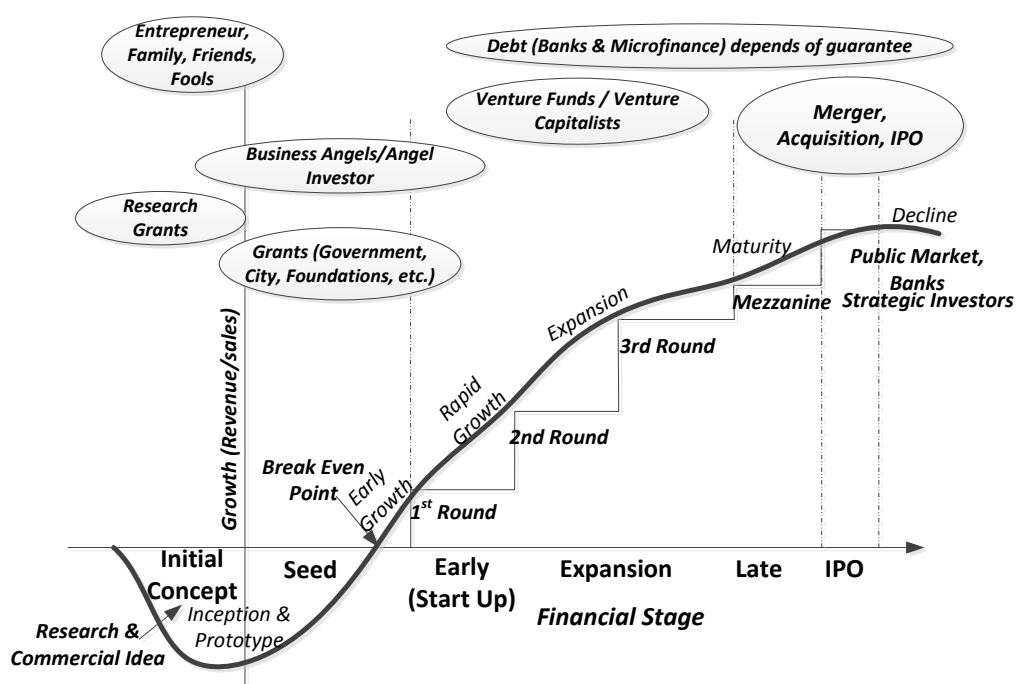


Figure 11 Financing cycle of a venture (extended from Drake, 2012)

Internal Financing – Personal Funding & Grants

According to Barringer & Ireland (2010), the initial concept and seed funding that gets the venture going usually comes from the founders own pocket. This comes usually in the form of **personal funds, friends & family or bootstrapping**. This **seed funding** is usually to fund development of a prototype or commercialize the idea as highlighted in

figure 11. Barringer & Ireland (2010) further state that around 90% of in the US are funded by personal funds till they roll out. Even in Finland entrepreneurs or founders were found to be the main source of financing at the initial stage of the venture (Virtanen, 1996). **Friends and family** can be another source of personal financing (Barringer & Ireland, 2010) and it can come in the form of loan or investment, gifts, delayed compensation, free rent or sweat equity.

Bootstrapping is usually mentioned in most entrepreneurial finance literature and it requires high creative and management skills possessed by an entrepreneur alone. Bootstrapping is finding ways to avoid external equity or debt through creativity, thriftiness, cost cutting or any means necessary (Barringer & Ireland, 2010; Virtanen, 1996). It is finding highly creative ways of utilizing resources with debt or external equity from traditional sources (Freear et al, 1995 in Virtanen, 1996).

Creative sources of financing – Apart from **bootstrapping**, entrepreneurial ventures especially seeds and startups can obtain funding through **research** and **government grants** as shown in figure 11. According to Barringer & Ireland (2010), such grants usually fund early stages of a technology firm and can be in specific areas. The greatest advantage of such grants is that it does not have to be paid back and no equity of the firm is at stake. However the grants can be specific to a region, hence this will be discussed on Finnish context in the next section.

Entrepreneurs prefer self-funds first, debt next and external equity last. However the ones with growth aspirations seek debt or equity financing. The greatest dilemma of an entrepreneur is to make the choice of going for external funding (Sapienza et.al, 2003) and the same has been discussed going forward.

External Financing

Debt financing involves getting a loan in the case of new ventures. The source of debt would be commercial banks, government loans or private creditors wherein the company's or entrepreneurs personal assets would be collateralized as a condition for the loan (Barringer & Ireland, 2010). However, according to Sapienza et.al (2003) the stage of a venture's development affects the availability of debt. He states that lending organizations usually make decisions based on the venture's credit history and the generated of stable cash flows to support repayment. This might be a greatest hindrance for entrepreneurs in achieving debt financing.

Business angel (BA) is an individual investing on his/her own in startups. According to Denis (2004), BA's are high net worth individuals that invest their own funds in few startup companies. Barringer & Ireland (2010) projects a typical BA as well educated wealthy person who has succeeded as an entrepreneur. According to them, these individuals look for ventures with a high growth potential and in the US generally invest anywhere between \$25,000 and \$150,000 in a single venture. In Finland

according to FIBAN (2012), the amount per venture is generally between 10,000 to 100,000 Euros. However, according to Lehner (2013) BA funds are available for early stages of entrepreneurship, usually difficult to tap and scarce.

Venture capitalists (VC) are firms limited partnerships in which the money managers invest on behalf of their limited partners (Denis, 2004) in startups and growing firms. However Lehner (2013) feels that VC's are suitable for growth stage rather seed or early start up stage. VC's are generally associated with 2nd or 3rd round funding as illustrated in the figure, with Barringer & Ireland (2010) stating that VC's invest at least \$1 million in a single company.

According to Denis (2004) startups usually will have to rely on outside equity in the form of venture capitalists and business angels. This is because such growth oriented ventures are not yet profitable at initial stages and lack assets; hence debt financing is not usually an option. Table 2 summarizes the characteristics of debt vs. equity and gives a clear picture of the entrepreneur's dilemma.

Table 2: Debt vs. Equity for growth ventures.

<i>Parameter</i>	<i>Equity</i>	<i>Debt</i>
Entrepreneur's control	Entrepreneur relinquishes part of ownership interest and some decision making control (Barringer & Ireland, 2010). Significant sacrifice of entrepreneurial decision and autonomy (Sapienza et.al, 2003).	None of ownership or decision control is relinquished by the entrepreneur (Barringer & Ireland, 2010). Debt Financers might impose restrictions on operations and cash flow, usually contractual agreed beforehand (Sapienza et.al, 2003).
Access to Capital & expertise	Easy Access to additional Capital. As Investors are partial owners, they often help with expertise and assistance (Barringer & Ireland, 2010).	Loans require assets or personal funds of entrepreneurs as collateral. Lack of cash flow and required assets is a huge disadvantage (Barringer & Ireland, 2010; Denis, 2004).
Payback Period	Money received from equity investor need to be paid back. The investor is a partial owner and receives shares (Sapienza et.al, 2003).	Loan has to be repaid, which might be difficult for a startup during the first few months as flow of revenue is nonexistent (Barringer & Ireland, 2010; Denis, 2004).

Venture funds tend to target companies by their stage of growth, especially during seed stage or early start up stage (Schreter, 2012). The characteristics of venture capitalists or business angels is to take risk while sharing decision making or ownership rights with the owner (Virtanen, 1996) and in most cases contradicts the characteristics of an entrepreneur who strives for autonomy, dominance and independence (Sapienza et.al, 2003).

Summarizing, entrepreneurs prefer personal funding over external financing. There is a phase of funding gap when the seed moves into a startup and often requires high creative and management skills of the entrepreneur to cover this gap through bootstrapping or grants. However, in most cases when a venture decides to pursue growth during the seed stage or early start up stage, entrepreneurs often face the dilemma of going for external financing. The choice between debt and equity depends on the access of capital and sharing ownership and decision control.

3.3. Entrepreneurship in Finnish Context

The earlier sub chapters discussed various characteristics of entrepreneurship and entrepreneurial finance. However, in the context on this thesis, it becomes essential to discuss entrepreneurship finance in Finnish context too. Therefore this sub chapter will give a general overview of entrepreneurial environment in Finland and also discuss various financial options available to entrepreneurs in Finland.

3.3.1. Entrepreneurial activity and Potential in Finland

A perception exists that the Nordic countries especially Finland and Sweden are the most innovative in the world. Stenholm et.al (2012) claim that of 79 countries in the Global Entrepreneurship and Development Index, Finland is ranked in the 17th place with USA and Sweden at 1st and 2nd place respectively. However, Napier et. al (2012) in their study on growth companies ranks Finland higher than USA and Sweden as the best conditions for entrepreneurship. The ranking varies due to the different set of parameters chosen and hence within the scope of this thesis an attempt is made to explore if entrepreneurship desirable in Finland and scope for early stage and growth in the Finnish context.

The share of Finnish individuals who perceive entrepreneurship has steadily increased over the last few years (Stenholm et.al, 2012). According to Global Entrepreneurship Monitor (GEM, 2013), entrepreneurship is viewed as a desirable career choice has improved drastically as highlighted in Figure 12, but still lags behind USA and Sweden. However the fear of failure of starting a new venture is increasing post the 2008 Euro crisis. World economic crisis and the cautious approach of traditional financing agencies like banks and equity financier's post 2008 can be a reason for this fear.

GEM (2013) defines entrepreneurial intention as “percentage of 18-64 population (individuals involved in any stage of entrepreneurial activity excluded) who intend to start a business within three years”. According to Stenholm et.al (2012), 6 % of Finnish adult population has entrepreneurial intentions which amounts to 17.500 Finnish adults every month engaged in early entrepreneurship. Stenholm et.al (2012) further claims that that younger adults (18– 24 years) and middle aged people (35–44 years) have more entrepreneurial intentions than those older persons. Highly educated people in Finland are more prone for early-stage entrepreneurial activity.

Further, GEM (2013) defines perceived capabilities as “percentage of 18-64 population who believe to have the required skills and knowledge to start a business” and perceived opportunities as “Percentage of 18-64 who see good opportunities to start a firm in the area where they live”. Figure 12 gives a trend analysis on entrepreneurial environment in Finland over the last decade. The overall environment seems to be positioning itself as an entrepreneur friendly and innovation driven economy.

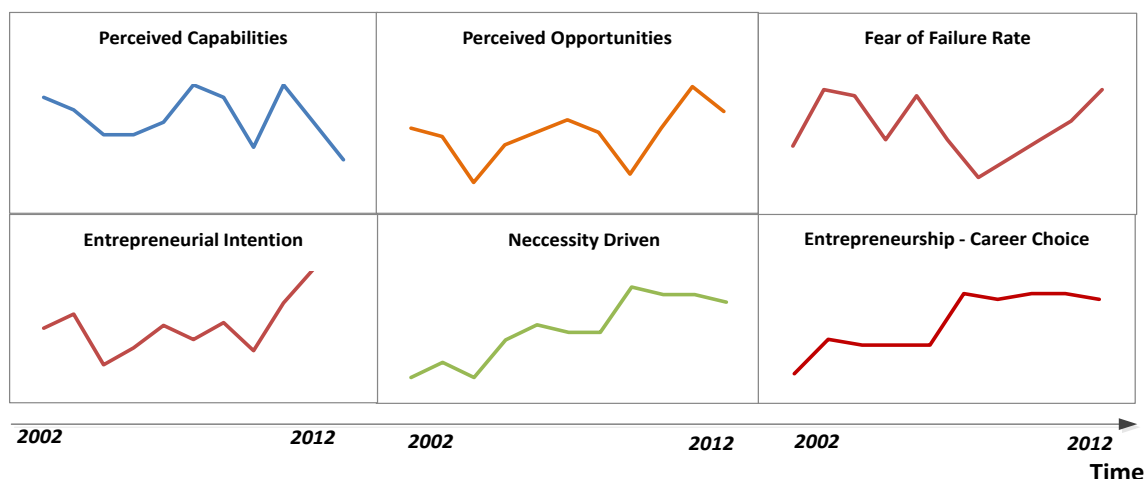


Figure12 Analysis of entrepreneurship in Finland (plotted from GEM, 2013)

As highlighted in figure 12, perceived opportunities and entrepreneurial intention seem to follow an increasing trend with entrepreneurship being viewed as a potential career path by around 45% of the adult population. However, the fear of failure has increased post the euro crisis as mentioned earlier and the perceived capabilities follow a similar negative trend as shown in the figure. The factor of entrepreneurship driven by need or necessity has also increased over the last decade in Finland; but is still low compared to USA (GEM, 2013). Non availability of paid employment for recent graduates in Finland due to volatile global business environment and insecurity of job attributes to rise in entrepreneurial intentions (Napier et. al, 2012).

Overall, it can be inferred from the analysis that entrepreneurship in general has a positive outlook in Finland with the number of entrepreneurs growing year on year. In this section an overview of entrepreneurship in Finland has been established. In the next

section, analysis of factors influencing entrepreneurship at both nascent and growth stages is discussed.

3.3.2. Analysis of factors influencing Entrepreneurship in Finland

It has been established in the last section that younger Finns have higher entrepreneurial intentions or aspirations than older Finns. However, according to Stenholm et.al (2012), higher entrepreneurial activity is observed among established business ownership and most of them are from high income households. GEM (2013) defines Business ownership rate as *“percentage of 18-64 population who are currently an owner-manager of a new business, i.e., owning and managing a running business that has paid salaries, wages, or any other payments to the owners for more than three months, but not more than 42 months”*. Further, Stenholm et.al (2012) state that established business ownership is mostly seen among older Finns (45-54 years) as compared to younger people in other innovation driven countries. Therefore high entrepreneurial intentions or perceived opportunity in Finland does not materialize into entrepreneurship.

However Stenholm et.al (2012) claims that early-stage entrepreneurial activity is high among middle aged Finns (35–44 years). Early stage entrepreneur is between nascent stage and business ownership with GEM (2013) defining nascent entrepreneurship rate as *“percentage of 18-64 population who are currently a nascent entrepreneur, i.e., actively involved in setting up a business they will own or co-own; this business has not paid salaries, wages, or any other payments to the owners for more than 3 months”*.

Figure 13 highlights the realities of Finnish entrepreneurial environment; the rate of new business ownership in Finland has seen a dramatic increase over the last decade with an expected dip in 2008 due to the crisis. Stenholm et.al (2012) rates Finland higher than other innovation economies. However, figure 13 also shows the mixed pattern of nascent entrepreneurship, which saw a decreasing trend in the earlier half of the decade, but is seeing recovery. GEM (2013) places Finland much below other innovation economies. The informal investor rate has a varying trend, but has seen an increasing trend post 2008, however being lower than other innovation driven economies.

GEM (2013) defines informal investor rate as *“percentage of 18-64 population who have personally provided funds for a new business, started by someone else, in the past three years”*. These informal investors usually are friends, family and individual business investors or well-wishers as discussed in section 3.2.3, with both Barringer & Ireland (2010) and Virtanen (1996) claiming them to be the main source of financing at the initial stage of the venture. In Finland around 3.5 % of the adult population have been involved in making at least one such investment. Even though entrepreneurship is not the first career choice of most Finns, the society gives high status to successful entrepreneurs, thus indicating a positive vibe for investment in entrepreneurial ventures.

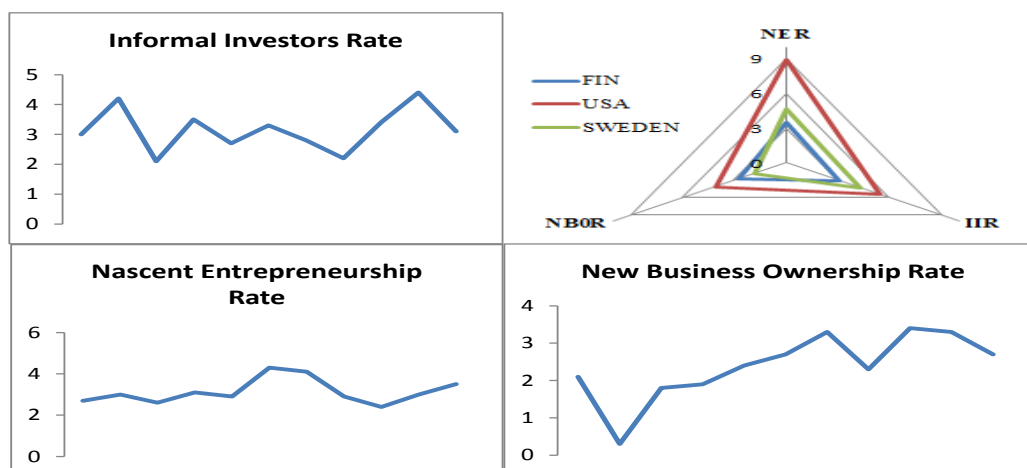


Figure13 Growth rates in Finland (plotted using data from GEM, 2013)

Analyzing GEM (2013) and Stenholm et.al (2012), it is very clear that growth business and established businesses have a very good growth rate in Finland. Napier et. al (2012) claims that Finland has excellent conditions for growth entrepreneurship. They further claim the Finnish growth companies (with 20% growth rate, min 10 employees and less than 2 years into growth stage) seem to grow larger and faster than their Nordic peers. A detailed analysis of factors influencing growth companies is analysed by Napier et. al (2012) in Figure 14.

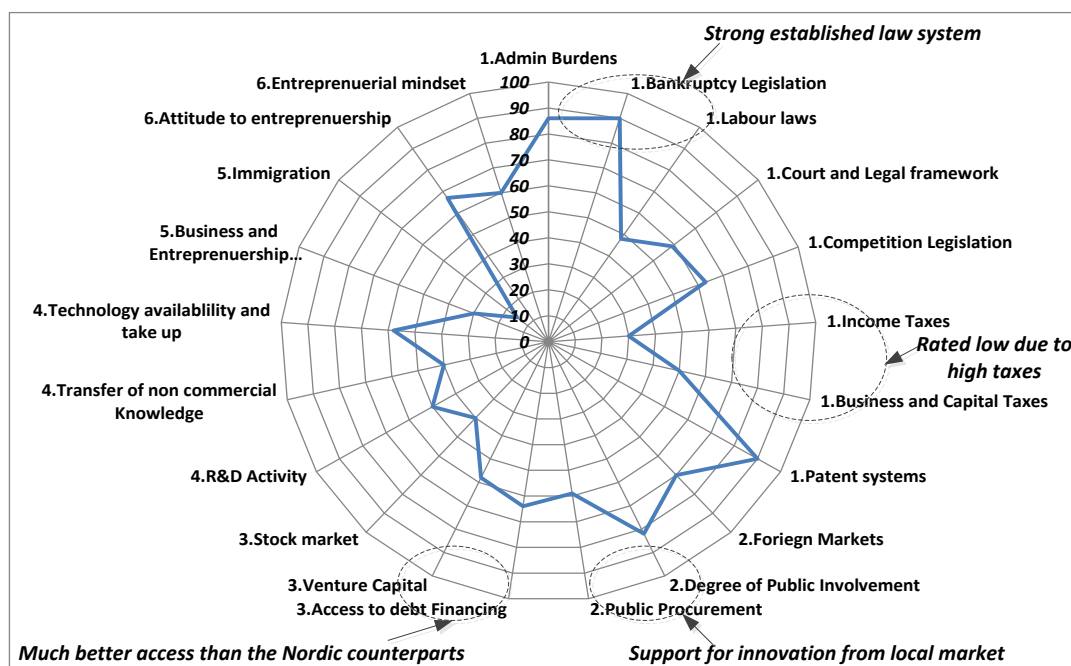


Figure14 Finland – analysis from within (extended from Napier et. al, 2012)

Figure 14 clearly highlights strong law system and established legal framework in Finland along with support for innovation from local market. Finns tend to look for local innovation and Finnish entrepreneurs have a tendency to develop products serving

only local markets. Most Finnish ventures regardless of the stage of business have no international orientation (Stenholm et.al, 2012). The attitude towards entrepreneurship and R&D activity is also showcased in Figure 14 and the analysis sits in sync with the one discussed in last section.

Overall in this section it has been established that growth driven startups are highly encouraged in Finland. Further the growth rate of new ventures that have been operating between 3 to 42 months is high, indicating support to entrepreneurial ventures after the initial phases of commercial idea development and prototyping. Older Finns (45-54) years are actively involved in business ownership indicating that education, prior experience and personal or family money places a major role in getting through initial nascent stage.

Napier et. al (2012) in their analysis showcase easy access to finance (venture and debt capital) in Finland for growth seeking start-ups companies as compared to its Nordic counterparts. However the support extended towards nascent entrepreneurs other than personal sources is low in Finland. In the next section, the discussion revolves around the mainstream finance options available to entrepreneurs in Finland.

3.3.3. Entrepreneurial Financing in Finland

According to Europa.eu (2013), several financing options are made available to entrepreneurs seeking finance in Finland. Provided with a viable and operable business idea, financial support and advice is offered both by government and private organizations. According to Stenholm et.al (2012), Finland rank very high in overall government support to entrepreneurs, but the outcome in terms of new and nascent entrepreneurship has not been good yet.

The entrepreneurial financing agencies in Finland as listed by Europa.eu (2013) are state agencies like (i) **Starttiraha** (*startup money*) which provides entrepreneurs funds for 18 months to start and run a new business, (ii) **SITRA** which offers funding assistance for programs on public health care, nutrition and energy, (iii) **TEKES** which provides funding for technology and innovation projects and (iv) **Finnvera** which is a state owned company granting loans and guarantees to Finnish companies and private agencies like (i) **FVCA**- The Finnish Venture Capital Association, (ii) **FIBAN**- Finnish business angel network and (iii) Commercial banks.

Most of the new business development is funded fully or partially by government agencies in Finland. Even the debt funding provided by commercial banks is often partially guaranteed by Finnvera. In this context Stenholm et.al (2012) claims that the Euro crisis hovering currently will challenge government budgets in the coming years and hence result in rationing of public money and support towards entrepreneurial activities.

Furthermore, private financing too has suffered from the crisis of 2008 resulting in a negative trajectory similar to that experienced by government agencies. According to the quarterly report published by FVCA (2012), the total funds raised by venture capitalists in Finland has dropped from 600 million Euros in 2005 and 1550 million Euros in 2007 to around 400 million Euros in 2011, with the first quarter of 2012 resulting in just 60 million Euros raised. The equivalent impact was noticed in the number of new investments made by venture capitalists that dropped from 800 million Euros in 2007 to 400 million euros in 2011 thus impacting the number of new ventures funded and investment per venture. However, the Finnish VC's in the year 2011 have kept the number of startups funded almost constant, cutting down on the investment per venture by around 30 to 40% as compared to 2007. The same trend is observed with other private funding options like business angels.

Therefore, from the discussion in this section it is very evident that the traditional sources of new venture financing are not able to satisfy financing need of the growing entrepreneurial base in Finland. The government agencies as well as private equity and debt financiers are taking a very cautious and low risk approach with respect to financing new ventures.

Summarizing, this sub chapter analyzed entrepreneurship in a Finnish context and found that entrepreneurial culture is on a rise in Finland. According to Napier et. al (2012), *“Finland is well on its way to an entrepreneurial culture which can be compared with the U.S”*. There has been rise in entrepreneurial intentions in Finland, especially among the younger Finns and entrepreneurship is seen as a desirable career choice in Finland. However post the Euro crisis in 2008; entrepreneurial financing from traditional sources has taken a back seat, motivating entrepreneurs in Finland to look for alternate source of financing. Therefore, the next chapter discusses the concept of “Crowdfunding” as a potential source of new venture finance.

4 CROWDFUNDING – FINANCING A VENTURE

4.1. Overview of Crowdfunding

4.1.1. Concept of Crowdfunding

Entrepreneurs often face hurdles in arranging the necessary finances at the initial stages of establishing a new business. According to Belleflamme et.al (2011), many ventures remain unfunded as they either lack resources to be pledged to funding agencies like banks and equity capitalists or they are unsuccessful to find and convince specialized investors like business angels and venture capitalists. This current situation has led entrepreneurs to look for a new source of finance “Crowdfunding” also referred to as “CF” by *tapping the crowd* instead of specialized investors.

Influence of Crowdsourcing

Building on existing literature on Crowdfunding (CF), there is enough evidence to support the fact that CF phenomenon is an offshoot of crowdsourcing. Therefore the concept of crowdsourcing has been introduced here. The term “Crowdsourcing” was first coined by Jeff Howe in a 2006 *Time magazine article* to describe the power of online media and the crowd (Rubinton, 2011). In the context of the literature, the term ‘crowd’ is defined as a group or community consisting of a large number of people, each contributing little, but with a possible high combined impact (Belleflamme et al. 2010b in Lehner, 2013).

Crowdsourcing is defined in Oxford dictionaries as means to *obtain information or input into a particular task or project by enlisting the services of a number of people, either paid or unpaid, typically via the Internet*. Crowdsourcing is defined by Rubinton (2011) as process of one achieving a goal by receiving small contributions from many in exchange for any form of value.

According to Zhang (2012), CF would never have emerged without the influence of crowd dynamics and social media i.e. the two main elements of “*crowd sourcing*”. This is also supported by Ordanini et.al (2011) wherein they state that CF includes elements of crowdsourcing where members in a community share ideas or pool in efforts to solve a problem. Further, Rubinton (2011) states that *Crowdfunding is a subset of crowdsourcing* and this view is supported by recent literature (Mollick, 2012; Lehner, 2013; Collins & Pierrakis, 2012) published.

Unlike crowdsourcing, CF is not only idea generation that emerges from crowd's collective efforts, but it is about generating finances for a proposed initiative (Ordanini et.al, 2011). They also state that CF having precedents of crowdsourcing goes beyond just social network participation and gives more proactive roles to customers. Therefore from the discussion above, it has been established that "CF" is a subset of crowdsourcing with crowd and social network being the main elements.

What is Crowdfunding?

Now that the influence of crowdsourcing has been established along with introduction of term "crowd", the evolution and definition of CF is discussed going forward. CF is referred to as a recent phenomenon, but the fact of the matter is that it has been around for centuries in the form of raising money from people for elections, wars, social causes and micro financing. Much before the formation of intermediaries like crowd funding websites and social networking websites entrepreneurs engaged in personal crowd funding initiatives (Gerber et.al, 2013). However, according to Castrataro (2011), the term "CF" was coined in 2006 by Michael Sullivan while launching his crowd funding website. He further states that *assuming web and crowd are the only two components of CF as an activity*, the very first examples surfaced in the 90's itself. However, after doing an extensive study on literature available, Table 3 gives the definition of CF with different perspectives.

Table 3: Definition of Crowdfunding

<i>Source</i>	<i>Definition of Crowdfunding</i>
Ordanini (2009)	An initiative undertaken to raise money for a new project proposed by someone, by collecting small to medium-size investments from several other people (i.e. a crowd).
Belleflamme et.al (2011)	Involves an open call, mostly through the Internet, for the provision of financial resources either in form of donation or in exchange for some form of reward and/or voting rights.
Ideavibes (2011)	Raising financing via the internet online through the collective efforts of a group of individuals referred as crowd.
Rubinton (2011)	The process of one party Financing a project by requesting and receiving small contributions from many parties in exchange for a form of value to those parties.
Mollick (2012)	Funding of efforts (cultural, social or business) by drawing small contributions from large number of individuals using the internet.

Lehner (2013)	Tapping a large dispersed audience, dubbed as ‘the crowd’, for small sums of money to fund a project or a venture through social media communication via the Internet.
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Therefore, given the established fact that CF is a subset of crowdsourcing and the umpteen definitions of CF from different perspectives showcased in Table 3, within the scope of this thesis, CF is defined as “*process of an individual or group of individuals raising capital for a cause; be it cultural, social or business by attracting small contributions from a large crowd using social media and internet as the medium for communication*”.

4.1.2. Elements of Crowdfunding

So far, the term CF has been defined, its evolution been elaborately explored and terms associated with CF been briefly introduced. The next question would be: how does CF work practically and what are the elements of CF at ground level? The answer to how CF works practically has been illustrated in Figure 15. The elements of CF have been presented elaborately by Lehner (2013), wherein they state that via the internet, Crowdfunding platforms or websites (CFP) act as communication orchestrator between the crowd and project owners, thus creating a possibility of fundraising beyond conventional sources.

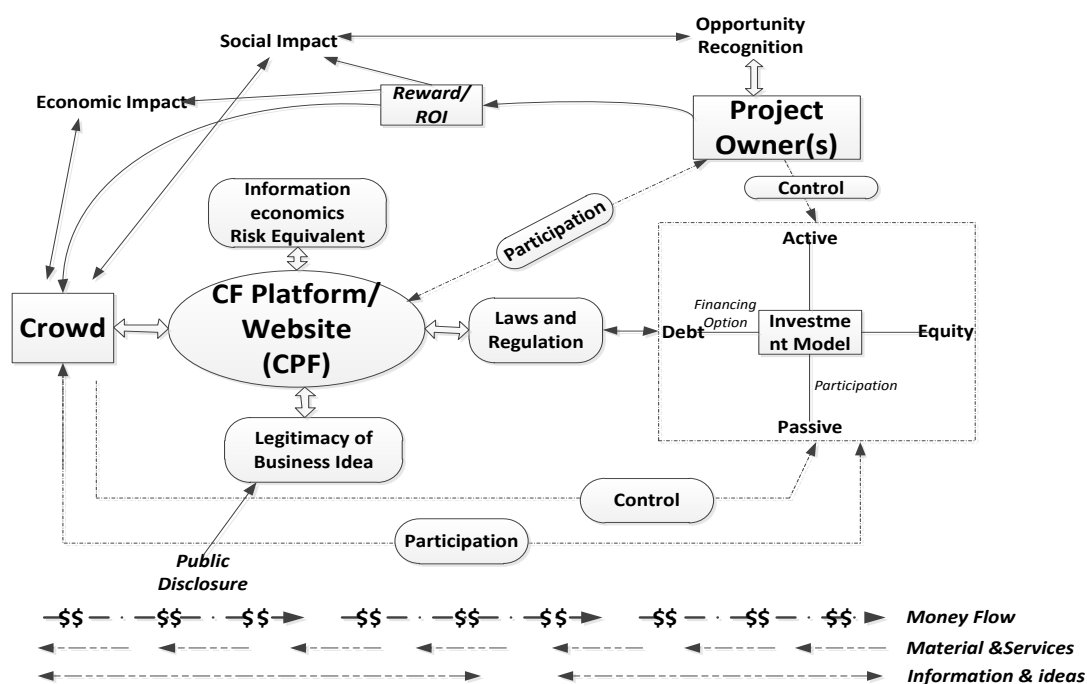


Figure 15 Schema of Crowdfunding (extended from Lehner, 2013)

Therefore there are three main elements of CF, namely **crowd**, **Crowdfunding platforms or website (CFP)** and **project owners** (Ideavibes, 2011; Ordanini et.al, 2011) influenced by parameters of **participation** and **control** (Lehner, 2013) with dependency on reward or return on investment (ROI) creating either social or economic impact or both. The relationship between all the above has been illustrated in Figure 15, wherein the schematic or working model of CF has been illustrated.

Crowd – As in the case of crowdsourcing explained earlier, crowd in CF refers to large group of individuals contributing for a cause, with the cause here being capital. Zhang (2012) refers to 'crowd' as a *conglomeration of countless individuals sitting behind the computer* connected via the internet. Ordanini et.al (2011) refers to crowd as group or community of people that decide to financially support a project or cause, taking a risk and expecting a certain payoff; financial or any other. They further compare the crowd to supporters who wish to co-produce a project they deem to be interesting or promising. This view is also supported by Belleflamme et.al (2011) and Berglin & Strandberg (2013), with Lehner (2013) also stating that opportunity recognition has to be identified by both the entrepreneur (project owner) and the crowd alike.

Project owners –are referred to as project creators (Zhang, 2012; Gerber et.al, 2013) or entrepreneurs seeking capital (Belleflamme et.al, 2011; Collins & Pierrakis, 2012). Ordanini et.al (2011) defines project owners as people who use CF to get access to the market and achieve fund raising from truly interested supporters. In this thesis a project owner has been identified to be an individual or group of individuals who uses CF as way to finance his/her project or venture.

CF website or Platform (CFP) - The vision of CF is *to harness the power of the crowd to fund small ventures* using the medium of social networking websites and CFP's via the internet (Gerber et.al, 2013). The CFP is a virtual hub for crowd investors and entrepreneurs who seek investments for their projects via CF (Ordanini et al., 2011; Berglin & Strandberg, 2013). The CFP's operate a website (interactive web 2.0) wherein project owners advertise their initiatives to the crowd. As illustrated in Figure 15, CFP's have to function within the legal framework of the environment in which it functions (Lehner, 2013). Furthermore, Zhang (2012) states that for an entrepreneur using CFP's, it is not only about fundraising but also about marketing the project or company to the crowd. Therefore the success of these CFP's is dependent on its visibility and success of projects advertised, hence as shown in Figure 15 making public disclosure of a legitimate business idea an important parameter.

This section highlighted the schema and main elements of CF. The following section will introduce types of CF based on parameters influencing the relationship between the three elements.

4.1.3. Classification of CF

The previous section introduced the three main elements of CF namely Crowd, CFP and project owner. The concept of reward or ROI in exchange for crowd participation was mentioned earlier while introducing CF in this sub chapter. As a continuation to this, this section will introduce classification of CF from a bird's eye viewpoint.

According to Ordanini et.al (2011) Crowdfunding models have precedents of charity and social cooperation, but unlike them in CF, consumers invest money to obtain a return, mostly financial but also intangible like status, social esteem and identification. Hence categorisation is mainly based on the motivation of crowd making the contribution and the returns expected from this investment. Table 4 classifies CF model into four types and gives a detailed picture of the characteristics of each of the four types of CF. The categorisation is mainly based on the motivation of crowd making the contribution and the returns expected from this investment.

Table 4: CF types & properties (extended from Collins & Pierrakis, 2012)

Type	Contribution	Reward (ROI)	Motivation of Crowd
Donation CF	Donation	Intangible benefits.	Intrinsic and social Motivation.
Reward CF	Donation/Pre-purchase/Pre-sales	Rewards & Intangible Benefits.	Intrinsic and social Motivation with a desire for reward.
Lending CF	Loan	ROI by interest. Some might be socially motivated.	Combination of Intrinsic, social and financial motivation.
Equity CF	Investment	ROI if the business is success. Rewards may also be offered. Intangible benefits another factor for many investors.	Combination of Intrinsic, social and financial motivation.

Furthermore, elaborating on the classification given by Collins & Pierrakis (2012) in Table 4, Lehner (2013) states that participation by crowd in a CF venture takes place in one of the four quadrants, spanning active or passive models vs. type of finance as illustrated in Figure 16. This classification can also be viewed from the type of CF projects, wherein art or humanitarian projects view their funders as philanthropists,

whereas many businesses view them as early customers or equity investors (Mollick, 2012). Therefore based on level of control, participation intent and financing method adopted, the figure below gives a clear picture on the types of CF.

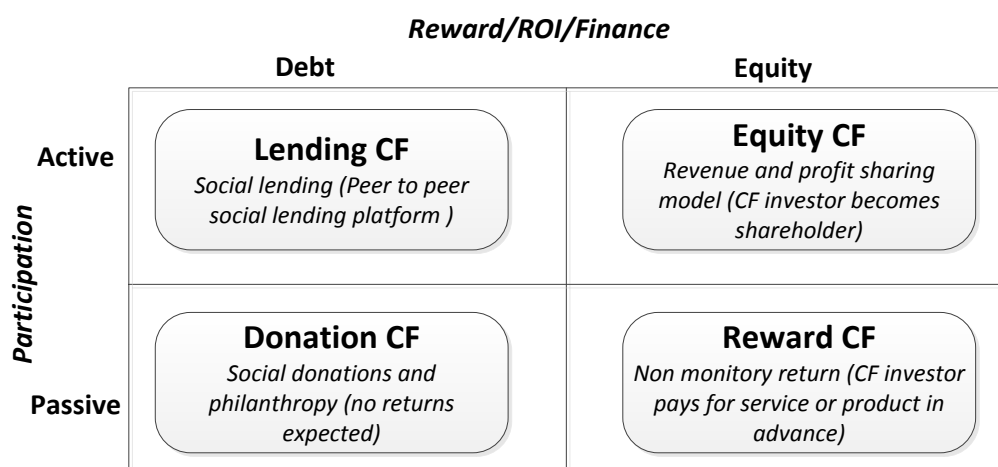


Figure16 Classification of Crowd funding (CF)

Figure 16 shows the summary regarding the influence of the CF elements in showcasing the different types. These four types of CF also revolve around broader issues like motivational, environmental trends, legalities and moral obligations. Hence the next two sub chapters will focus on discussing motives, drivers and other issues influencing CF. The discussion will go into the specifics of each of the four types and a summary will be provided with respect to CF in general.

4.2. Crowdfunding Motives

4.2.1. Online community participation

It was established earlier that CF is a subset of crowdsourcing and how its survival is highly dependent on crowd participation as a community in social networking via the internet. Tedjamulia et. al (2005) perceives these online communities as social network of users that have common beliefs and interests communicating regularly over a common communication medium. In order to understand the motivations to participate in CF it is very important to know the factors influencing social media behavior. It is very important to answer – *why do people participate in online social media communities?*

Tedjamulia et. al (2005) classifies online community participants as lurkers and active contributors. They describe lurkers as (i) the ones who browse through the information, consume them but do not contribute anything & (ii) the ones who will ask questions on the community platform only when they do not find certain specific information. They further state that 80% of the online community participants are lurkers. The contributors are the participants who ask browse, ask questions, respond to questions and engage in

social interaction thus keeping the community alive. The more active contributors are the ones who are responsible for making lurkers interested as they in most cases ask thought provoking questions, create events and overall behave actively.

Motivations influencing individual's behavior using social media networks is divided into extrinsic motivation and intrinsic motivation (Lin & Lu, 2011; Berglin & Strandberg, 2013). Extrinsic motivation refers to participating or executing an act to achieve certain external value and intrinsic motivation refers to doing an act because of personal interest, rather than external benefits (Davis et al., 1992 in Lin & Lu, 2011). With regards to social media participation, personality of the individual decides whether they are influenced by intrinsic or extrinsic factors.

In a blog by Antonios (2010), Maslow's pyramid of needs is used to identify motivation for participating in social media networks and forming online communities, the same has been illustrated in Figure 17. Based on the intrinsic or extrinsic factors motivating a particular individual, Figure 17 showcases there are certain basic needs equated to physiological and safety needs before social needs like self-esteem and self-actualization take over.

Furthermore, Berglin & Strandberg (2013) states that an intrinsically motivated person in a social network is looking for fun, novel and something interesting to fulfill his psychological needs; whereas an extrinsically motivated person is looking in the final outcome. Tedjamulia et. al (2005) adds that lurkers are not only motivated by extrinsic factors like ease of finding credible information and opportunities to broaden contacts but intrinsic factors like sociability and interaction, thus helping them be part of the community. The above benefits are also enjoyed by contributors, however in addition they are strongly motivated by intrinsic factors like sense of belonging, moral obligation and pro social behavior.



Figure 17 Participation in online social networks (extended from Antonios, 2010)

Figure 17 shows the levels of need to participate in an online community, but according to Berglin & Strandberg (2013) extrinsic motivation and intrinsic motivation may be

present at the same time. Therefore participation of an individual can be perceived as basic needs or social needs or both. The individual looking at an online community might range from as simple as making his presence felt and be part of a community to create a community to achieve a monetary goal and it solely depends on the motivational factors.

The section highlighted some important motivational factors of participating in an online community. The following section tries to combine theories discussed to find out what motivates to invest in Crowdfunding.

4.2.2. Motives to Invest in Crowdfunding

As discussed earlier CF is related to online community participation and the characteristics of this has been discussed in the previous section. In addition to this, Ordanini et.al (2011) states that CF goes beyond online community participation and adopts a proactive role to the crowd who act as customers as well investors in supporting and providing financial assistance for the projects.

The motivation for the crowd investing in CF initiative could be social return; financial return and material return (De Buysere et.al, 2012) as illustrated in Figure 18. Furthermore the expectation of returns is dependent on the extrinsic or intrinsic factors motivating the crowd (Collins & Pierrakis, 2012; Lehner, 2013; Ordanini et.al, 2011; Belleflamme et.al, 2011). De Buysere et.al (2012) further states that emotional and geographical connection of the crowd towards the project is another important factor.

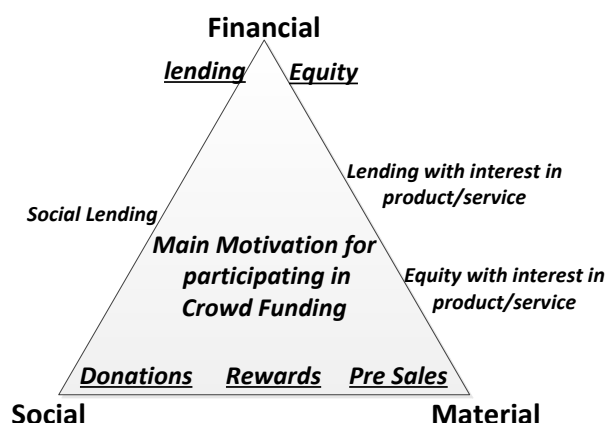


Figure18 Motivation for crowd (De Buysere et.al, 2012).

Therefore the motivation for crowd to be become investors is split into three types based on the type of return or outcome as illustrated in Figure 18. They are -

1. **Social return** – Crowd has an intrinsic motivation and seeks intangible benefits to help the project succeed. The benefits could be personal satisfaction, fun, be part of a community emotional connection or just donation. Donation based CF usually comes under this classification.

2. **Material return** – The motivation for participation here is a culmination of social return in addition to some reward or tangible benefit. This is related with reward CF or pre sales; usually artistic, cultural or innovative projects use this type of reward. De Buysere et.al (2012) states that the crowd funder could be satisfied with a return with a lower economic return than the investment. They use example of a fan given with an opportunity to meet the musician at a concert, the perceived value for the fan is higher than economic value.
3. **Financial return** – The crowd in this case is purely motivated by financial return. Equity or lending based CF suits this category. However as shown in Figure 18, social lending is an example of a hybrid model of financial as well as social return.

This section introduced the different motives the crowd to invest in CF and formed a starting point to explore the motives of in CF. In the next section we explore the motivation of the project owner to start a CF initiative and summarize the CF motives.

4.2.3. Summary of Crowdfunding Motives

In this section the summary of CF motives to Crowdfunding participation are proposed by consolidating the literature study from last two sections, definition of CF introduced in the last sub chapter and concept of entrepreneurial dimensions from section 2.2.1. Crowdfunding participation highly depends on individual motivation of the crowd funder in the CF initiative as well the project owner's motivation to start an initiative.

So, *why do people start a CF initiative?* The very obvious answer is to raise money for their project or idea. However a study by Belleflamme et.al (2011) on CF initiatives found that raising money or financial capital was the main motivation of the project owners, while getting public attention and obtaining feedback was relevant for 60% of them. According to De Buysere et.al (2012), CF gives the project owner with relevant information regarding pricing, market demand and product feedback through direct customer interaction. It might lead to word of mouth recommendation and social marketing thus forming a link between the product and its first customers. Therefore for project owners in addition to being “contributors” in an online community, raising money and building first customer relations are among the major motivations for CF participation.

According to the study carried out on 50 CF initiatives by Belleflamme et.al (2011), 23 were specific project based, 18 were for profit companies, 8 was for nonprofit organizations and only 1 individual work. This study showcases the fact that a CF initiative could for variety of reasons. This fact is further strengthened by a Ordanini et.al (2011) wherein they publish examples of CF initiatives with regards to wide spectrum of markets and society. They list *SellaBand*, *Slicethepie*, and *Bandstocks* as few CFP's wherein music industry and established artists raise money through their

fans. They state examples *Cameesa* and *Catwalkgenius* as successful CF initiatives in the fashion industry. They also state that CF model has been used to collect money for a number of profit and nonprofit projects and ventures alike.

Given the wide range of CF initiatives and the motives to participate, Figure 19 gives a bird's eye view of the various perspectives of CF. As suggested earlier in section 3.1.2, most business or entrepreneurial ventures feature a blend of the six perspectives and the same is applicable to a CF initiative too. Further, the project for which CF initiative is undertaken might create social, financial, artistic capital or a combination of two or more as illustrated below. The Motives can summarize as a culmination of crowd motives to invest along with project owner's motivation to start a CF initiative. Overall Figure 19 gives a summary of the type of return or capital and various perspectives associated with Crowdfunding.

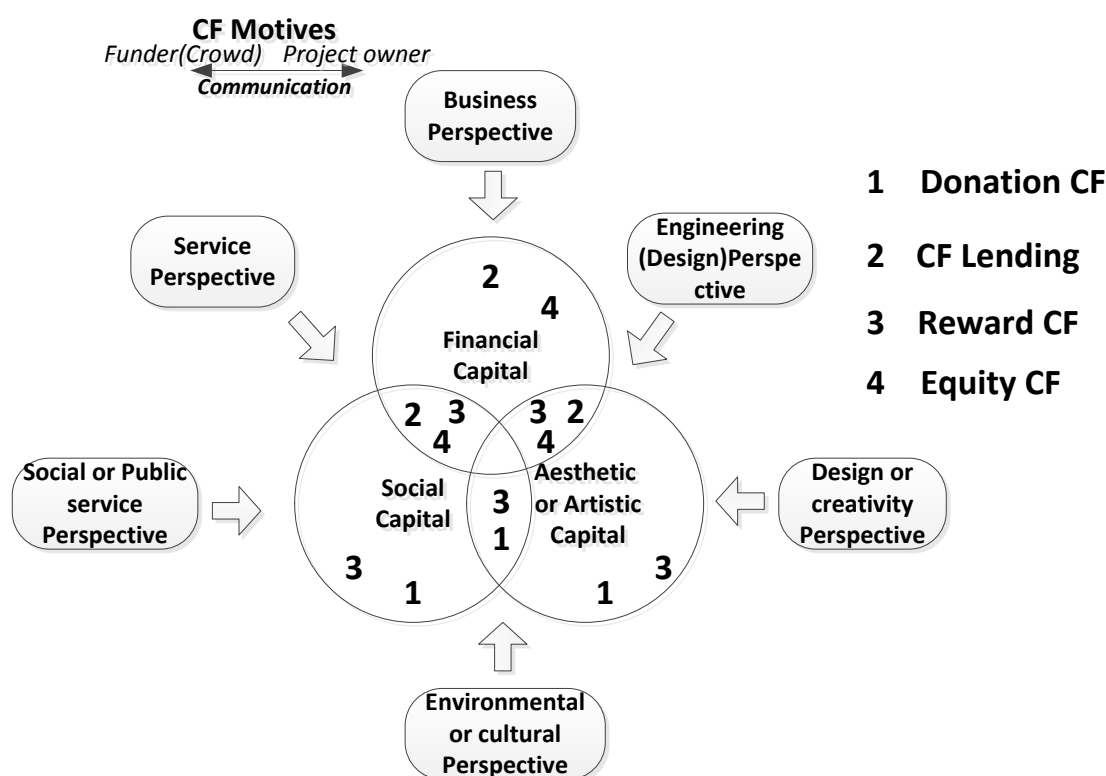


Figure 19 Motives of Crowdfunding.

The detailed approach of each of the CF category with respect to value (capital) generated and perspectives in addition to characteristics explained in Table 4 can be summarized in the above figure. It is very evident that donation CF usually has a social or cultural perspective as illustrated in figure 19 and according to Belleflamme et.al (2011); this is worthwhile model of money collection for many charity organizations and NGOs. However, donation CF can be relevant to generate artistic or aesthetic capital as in the case of music artists discussed earlier. Similarly equity, reward and lending CF have been highlighted in the above figure.

This sub chapter establishes the various motives of the crowd as well as to participate in variety of CF and summarizes this in a framework. It highlights the motivational factors in addition to the various perspectives and emotional connections associated. The next sub chapter analyses the literature available on CF and positions it in the current new venture financing market.

4.3. Positioning Crowdfunding in the Financing market

The previous sub chapters discussed in detail the characteristics of Crowdfunding ranging from definition, classification, motives, drivers, challenges and practical aspects. Analyzing the literature on CF discussed so far and the literature on new venture financing from sub chapter 3.3, a comparison between CF with other sources of financing has been established in this sub chapter.

The crowd funder or investor forms the backbone of CF, with the motivation of investing being either financial, intrinsic or combination of both as discussed in last sub chapter. However by virtue participation in CF, be it equity, reward or donation, the crowd displays willingness to take certain monetary risk. Based on the type of CF, Collins & Pierrakis (2012) highlights the parameters of motivation, risks and rewards in Figure 20. Reward or Donation based CF has fixed rewards and hence is not equated with risk, as the investor expects something in return.

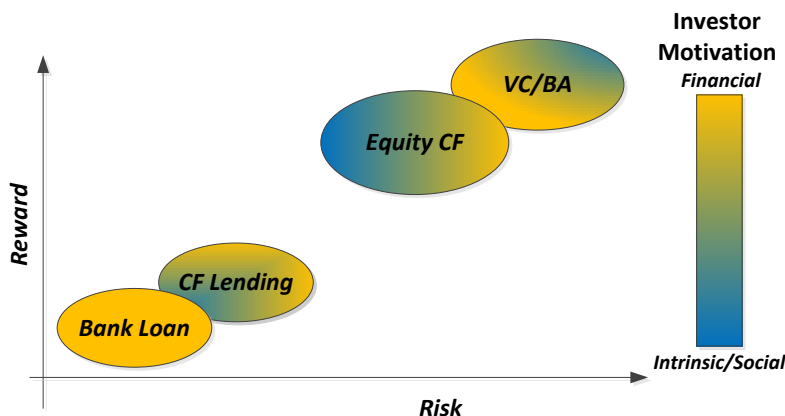


Figure 20 Investing in CF (extended from Collins & Pierrakis, 2012).

The inclination of an individual towards intrinsic or extrinsic factors relies on the type of project one chooses to invest. One important observation is the closeness of the risk profile of equity crowd funder to that of a BA/VC. Usually BA/VC's are expert investors with a sole purpose of financial return as compared to CF investor, but the sheer amount of money and expectation of higher returns increases the risk as illustrated in the figure. Figure 20 also nicely summarizes the comparison of CF with traditional financing options with an investors view point.

Furthermore, another end of the spectrum required to ensure the success of CF are the entrepreneurs and innovators. As discussed in chapter 3, entrepreneurial finance varies over a wide range from seed, start up to growth ventures and financed by various options ranging from self-financing, external debt to equity financing.

Crowdfunding with all its variation is a source of finance that covers a wide range from pre seed to expansion. According to De Buysere et.al (2012), early stage ventures are usually funded by entrepreneurs or their friends and family. Furthermore, according to Sapienza et.al (2003) entrepreneurs face hurdles to obtain debt or equity financing due to inadequate revenue history or collateral; even high risk of venture (Collins & Pierrakis, 2012), thus creating a funding gap.

Further, traditional sources of capital like banks, business angels and venture capitalists have been looking towards larger and safer investments in bigger companies (Collins & Pierrakis, 2012). This again highlights the issue of finance gap and De Buysere et.al (2012) claims that CF could provide risk free capital at this time with specific local appeal or consumer market. Moreover they also state that CF could be used parallel to support from government grants, BA's and loans to help business grow faster. Figure 21 gives a generic description of CF in the new venture financial market.

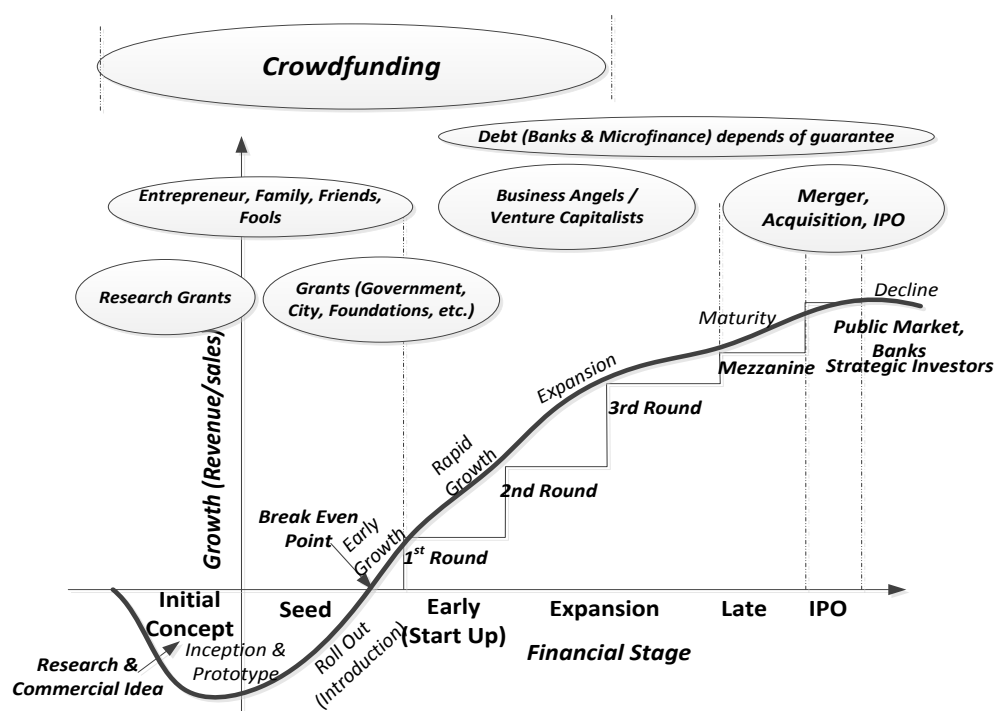


Figure 21 Crowdfunding in the financial market.

The existing literature is spread all over the place while positioning the different types of CF. Some of the literature positions equity CF in direct competition with BA's or VC's. In addition to this donation and reward CF was seen as tools to fund pre seed

stages or some small projects. However there have been instances of reward CF gathering funding for growth ventures during the 2nd or 3rd round of funding too. In general CF is a very new phenomenon and the precise definition of its application is still developing.

Overall this sub chapter positions CF as a potent financing mechanism in the existing financial market. The next subchapter explains what one can expect while running a CF campaign. The existing literature along with market research has been adopted in the next sub chapter.

4.4. Practical Crowdfunding Campaign

The CF project could be offering equity, material or monetary reward in return for the investment or loan offered by the crowd. In some cases, the project could be for a nonprofit cause and the project owner could just be asking for a donation. All of this has been established earlier; however few important questions remain unanswered –*What are practicalities of a CF initiative? How does it actually work?* Therefore in order to answer these questions, the practical aspects of an actual Crowdfunding initiative have been discussed in this sub chapter.

According to Collins & Pierrakis (2012), the stages of an equity Crowdfunding process is divided into four stages as illustrated in Figure 22. However the same four stages are also applicable to other forms of Crowdfunding like reward, donation or lending. Major successful global CF platforms like Kickstarter, Indiegogo and Sellaband who cater to specific markets also follow the same stages. The CF platforms specific to market in Finland like Mesenaatti.me, Invesdor and Fundedby.me also have the same process flow.

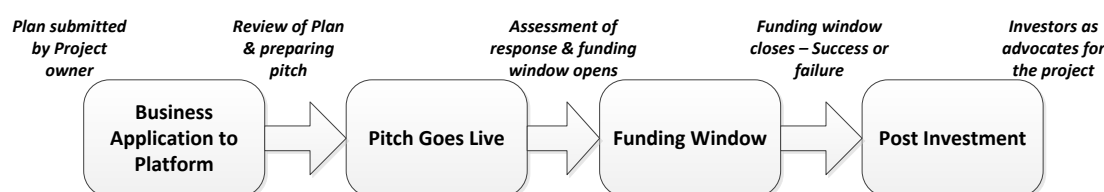


Figure 22 Stages of Crowdfunding process

Business Application to Platform – The entrepreneur or project owner submits his/her plan to the CFP for review. According to Collins & Pierrakis (2012) the platform performs some level of scrutiny before the project is published on their website. The application form is usually referred to as a pitch (Invesdor, 2013; Fundedby.me, 2013) and consists of the business idea, plan, details of the financing the venture plans to achieve and specifically pre money evaluation and shareholders agreement details in case of equity CF, this is scrutinized by CFP and after discussions, changes and deliberation the project is published on the CFP website.

Pitch goes live – According to Fundedbyme (2013), project owners publish their work online and people sign up their interest; all this is termed as “pre round”. Project owners get all relevant data on crowd interest and then make a decision if they want to generate capital by going for an “open round”. Investors access through the material published by project owners, share their thoughts and the interaction develops during this stage (Collins & Pierrakis, 2012). According to Mollick (2012), video is the best way for the crowd to feel the emotions, motivation and character of the project. The impact of the pitch is enhanced if the demonstration of the project is done through a video. The pitch stays live and is updated regularly even through the funding window as discussed below.

Funding window – Pitches are usually on the CFP for a period of 60 to 120 days depending on the platform, in case of Invesdor it is 90 days. Funding campaigns usually are active between 5 to 10 weeks, with lending CF taking around five weeks, equity CF about eight weeks, and reward or donations taking about ten weeks (De Buysere et.al, 2012). According to study on Kickstarter by Mollick (2012), longer the duration of funding window smaller is the chances of success. The reason suggested is probably the lack of confidence of the project owners cited by the crowd; however there is not much literature to support this claim. During this period project owners market their project through the platform and the CFP also markets itself. The project owners in addition use their own marketing channels too (Invesdor, 2013). The funding window can close for two reasons- (i) if the target is not reached even after stipulated days or (ii) If the target fund collection is reached within the period (Collins & Pierrakis, 2012). The success or failure of the campaign is decided in this stage. If the target amount is achieved, the project owner is given the choice by CFP’s to either continue the campaign for the entire period or stop the campaign.

Post Investment- According to Collins & Pierrakis (2012), even after the funding round, the interaction between investors and project owners would continue. Further, according to De Buysere et.al (2012), if a CF campaign is successful, most of investors will have post investment communication with the project owners. Especially in case of equity CF project owners evaluate investors and select the ones they would want as shareholders for variety of reasons. The investor money raised not accepted by the entrepreneur is transferred back to the investor by the CFP. In case of a failed campaign, that is minimum target is not achieved the CFP will transfer the money back to the investor. In most cases after this stage, the CFP is out of the loop and the interaction levels exist only between the investor and the project owner.

Investment flow in a Crowdfunding campaign

The practical functioning of a Crowdfunding process was showcased earlier. The need for sharing of information on the project and regular updates to motivate the crowd to

invest forms the highlight in all the stages. In this section we focus on the pattern of funding over the duration of campaign and the possible factors influencing this.

A study by Ordanini et.al (2011) on three Crowdfunding platforms suggested a similar pattern of cumulative investment flow during a CF campaign as illustrated in Figure 24. They state that *regardless of the differences in the required investment size per participant, the overall investment path, reflecting the collective investment behavior of consumers' over time, seems to follow a similar pattern in all three cases*. The pattern has been showcased in Figure 23, with cumulative investment flow on Y axis and duration of time on the X axis.

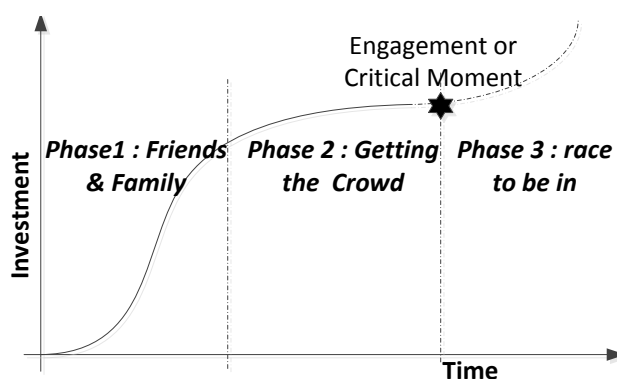


Figure23 Pattern of crowd investment (Ordanini et.al, 2011)

The first phase is termed as “friend funding” by Ordanini et.al (2011) and is seen to have quick and rapid increasing trajectory, thus suggesting steady flow of investment in a very short time. They also state that this investment on an average covers almost half the target to be achieved through CF. The rapid flow of finance is from the sources closely linked to the project owners. Furthermore, according to Mollick (2012), in addition to quality of the project (brand theory), the social network of project owners are linked directly to the success of a CF campaign. According to his study on Kickstarter, a project owner with 10 Facebook had a success rate of 9%, one with 100 friends had a 20% success rate and one with 1000 friends had a 40% success rate. Therefore the larger the social network, faster is the flow of investment in the first phase.

The second phase termed “getting the crowd” is associated with investment flow slowing down and almost stagnating at the end. According to Ordanini et.al (2011) the project owners have to assume huge responsibility in this stage to keep the campaign afloat. They also state that projects usually stagnate in this stage for failing to ignite the crowding process, with Mollick (2012) directly correlating the length of duration to the failure. Attracting the crowd outside the direct social network through marketing, advertising and word of mouth communication and motivating them to invest is the key to success.

Only few projects reach the engagement moment highlighted in Figure 24 and start the third phase termed as “race to be in” (Ordanini et.al, 2011; Berglin & Strandberg, 2013). In this phase the project catches steam and sees accumulation of investment at a very rapid pace and according to Berglin & Strandberg (2013) usually exceed the target. Ordanini et.al (2011) further states that the crowd funders are people outside the social network of the project owners and invest at the end of the funding window. The funders act similar to investors in financial markets (Ordanini et.al, 2011; Berglin & Strandberg, 2013) who do not want to miss an opportunity to be part of the project.

This section established the pattern of flow of investment in a CF process. It also reiterated the importance of marketing, social network and quality of product to the success of the CF campaign. Moreover, the literature study along with market analysis highlight a fact that CF process in Finland is similar to rest of the world. However the pattern of flow of investment is too early to compare as CF in Finland is just a new phenomenon.

In the next chapter CF has been discussed in detail with a Finnish context. Using the research methodology of qualitative interviews the current hot topic of CF in Finland has been explored.

5 CASE STUDY: CROWDFUNDING AS A NEW FUNDING MECHANISM IN FINLAND

5.1. Crowdfunding in Finland

5.1.1. Business Opportunity for Crowdfunding in Finland

The research framework of this thesis is mostly based on the interviews with higher management decision makers of three Crowdfunding platforms operating in Finland, a senior representative from a government financing agency and a bank manager, so as to get an insider perspective.

In Chapter 3, we established certain characteristics of entrepreneurship in Finnish context based on literature published by Stenholm et.al (2012) and Napier et. al (2012) as well as analysis published by GEM (2013). Therefore in the interviews conducted, an attempt was made to understand what the interviewees at ground level think about entrepreneurship in Finland. The questions related to this were kept opened ended and excerpts from the interview are used to explore these factors.

We see that Finland is entrepreneurial country.

Interviewee 2

The above point reiterates the point established in the theoretical discussion that entrepreneurship has a huge potential in Finland. It establishes the fact the entrepreneurial intention of starting once own venture is steadily increasing in Finland. Even though has not been a direct mention, all the interviewees had positive notion of entrepreneurship in Finland. Moreover, one of interviewee gives an insight of mindset of Finnish entrepreneurs.

We are based in Finland, so first we wanted to serve the needs here. Secondly there is amazing technical talent in Finland. Finland is also a good place to build your first financial service because there is very low fraud. It is quite easy to start something new here.

Interviewee 6

Therefore even at a practical level the attributes supporting entrepreneurial environment is sturdy in Finland especially when it comes to laws and regulations.

Furthermore, the age demographics of entrepreneurial population were also discussed in the theoretical section. Interviewee 1, who herself is an entrepreneur made direct mention on the mindset on the Finnish population. Interviewee 1 refers to investment in entrepreneurial ventures based on age demographics.

The older people have more money, but young people are more open to new things.

Interviewee 1

However, Interviewee 5 takes a different view regarding the age demographics. According to him, older people in Finland have the necessary means to start and support a venture which is also supported through the discussion in section 3.3. However, the interviewee being a banker by profession is of the opinion that the affluence of Finns especially the younger ones is growing, hence supporting entrepreneurship investment.

People in their 50 to 60 are risk takers as they have paid their mortgages & they earn now so they would be investing in entrepreneurial things. Then probably 20 & 30 - they are children of these 50 to 60 year old.

Interviewee 5

The overall perception of the interviewees about entrepreneurship has been positive with Entrepreneurial capabilities to start once own venture rising. However entrepreneurship needs capital and the recent crisis has immensely affected the inflow of funds as discussed in section 3.3. The aspiration of entrepreneurs in Finland and traditional financing institutions has been less aspirational towards risk capital, high growth and internationalization (Stenholm et.al, 2012).

Up until 2008 we used lend aggressively. Credit policy was loose; goal of the bank was lending & making profits. In 2008 we hit a big wall, pre 2008 granting loans up to 10 years was no big hassle, but when 2008 hit we pushed the brakes very hard. You can imagine that's a big difference; this had result on customers asking for funds. You see we look at safe customers to lend.

Interviewee 5

The statement made by interviewee 5 partly explains the reason for the low aspirational nature towards risk capital and high growth orientation post the financial crisis. This view point is also presented by Interviewee 4 wherein the low accessibility of quality private financing in Finland is highlighted.

Even though we have banks, private financiers, VC's and so on, private funding market has such failure that young ventures face difficulty in getting funding. Private funding is scarcely available for research projects.

Interviewee 4

Therefore at ground level in Finland the new venture financing sources are not meeting the requirements of rising entrepreneurial population. According to Thompson (1999) whenever entrepreneurs are constrained by financial or resource limitations, they tend to use their creativity, social networking and bargaining to obtain the same. Crowdfunding is one such novel option to substitute or support the traditional financing options in Finland and has been analyzed in the coming sections.

5.1.2. Current state of Crowdfunding in Finland

Crowdfunding in Finland is in its nascent stage as compared to UK or USA where it has developed into a mainstream phenomenon. Even when compared to other EU countries CF is seen as just emerging in Finland. One of the interviewees describes the emerging nature of CF in Finland in the current state.

I just came in from Amsterdam last weekend and I think Finland is currently behind from what is going on elsewhere. There are already a number of services running for quite some time in the Netherlands. I think the phenomenon is coming to Finland.

Interviewee 6

The definition and nature of Crowdfunding in the context of this thesis has been established in the last chapter. Crowdfunding as a concept gained public attention during the fundraising of the movie “Iron sky”. According to the movie website ironsky.net, the movie was able to raise 686270€ through CF in 2012. The controversy surrounding the crowd funded book campaign by Senja Larsen on Kickstarter violating Finnish fundraising regulation had also created a media spark in Finland. These recent events coupled with launching of four Crowdfunding websites specifically targeting the Finnish market have created a lot of vibe in the society.

CF is an emerging issue, in situation where young companies who find it difficult to raise funds from traditional means, it is very welcomed as an additional funding option.

Interviewee 4

During the research and interview phase as described in Chapter 2, information about Crowdfunding platforms in Finland was compiled and the same has been illustrated in Table 5. In addition to the platforms operating out of Finland, many international CF platforms like Kickstarter, Indiegogo and many others have attracted public attention too. Overall, CF is a new phenomenon in Finland, but has been growing steadily over the last two years.

Table 5: CF Platforms in Finland

Platform	Current Type	Established, Investment attracted & origin	Target market, Business Type, etc.
Mesenaatti .me	Reward/Pre-purchase/Pre-sales	Autumn 2013, EUR 100000 till date , Finnish origin (Operates in Finnish mostly)	Entrepreneurs - Finnish Social and culture projects; also open to service, business, individual projects, etc.
Invesdor	Equity	Early 2013, EUR 709000 till date, Finnish origin (operates both Finnish & English)	Any new venture that decides to go for equity funding. Minimum investment for crowd is €20.
Fundedby me	Equity/ Reward/Pre-purchase/Pre-sales	Spring 2013 in Finland, Swedish origin (operates in English); EUR 3 million in Sweden till date in 2 years.	Any new venture that decides to go for equity funding. Any other project that looks towards reward based too. Minimum investment for crowd is €50.
Fixura	Lending (peer to peer)	2009 in Finland; EUR 15 million; Operates in Multiple languages (Open to borrowers from Finland & investors from Europe).	Private individuals – Can borrow max of 10000 euros. Unlike other CF types, Fixura accesses credit history of every borrower.
Venture Bonsai	Equity	Earliest CF venture in Finland (2012). No success yet.	Any new venture that decides to go for equity funding.

Currently the investment attracted by entrepreneurs through these platforms in Finland is a little over 1 million Euros. The peer to peer lending platform “Fixura.com” has attracted over EUR 15 million over the last three years of its existence. The author had a dilemma on positioning “Fixura.com” under the Crowdfunding bracket as defined in the context of this thesis as there is no interaction between the lender and the borrower. However since “Fixura.com” works on the principle of crowd lending money to each other, the author decides to position it in the peer to peer lending bracket. In addition to

this the role of Fixura is that of an orchestrator of business which similar to that of other CFP's.

We are an enabler; we are enabling growth companies to find investors. Both, the investors and Startups are our customers, we are a matchmaker. We have first mover advantage & understand the legalities, which form the main barrier. It is the question of "Is the crowd interested".

Interviewee 3

The above statement not only conveys the role of the CFP's as a matchmaker, but also highlights the sentiment of uncertainty among the CFP's. Based on the information presented till now, the author plots the Finnish CFP's using Thompson's framework established in chapter 3 and 4 as illustrated in figure 24.

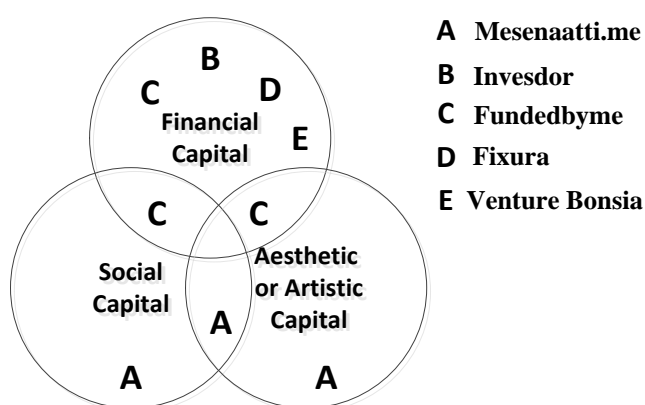


Figure 24: Type of Projects on specific Finnish CFP's.

Mesenaatti.me, for example is seen by the author in the current state wherein projects related to public service, art, culture or music could seek finance. This assessment is based on analysis of information available in public domain, information gathered through interviews and intuitive observation. Similarly the author feels that Invesdor, Fixura and Venture Bonsia would suit for companies looking to raise capital with a business perspective. However, the author plots Fundedbyme as highlighted not only because it operates as both equity and reward based CFP in Finland, but also due to its successful experience as reward based CFP in Sweden too.

Overall the initial response for CF in a short span of 2 to 3 years to CF in Finland has been positive and the same has been showcased in this section. The formation of five Finnish CFP's covering all spectrums of CF is a testament to the positive vibe this phenomenon has created. Therefore the next section attempts to understand the mood of the Finnish society with respect to CF.

5.1.3. Current Adoption of Crowdfunding in Finland

The previous section discussed the growth of CF industry in Finland in last two to three years. The role of Crowdfunding as a novel way to satisfy then financing gap was also established. Innovators and Entrepreneurs as defined in chapter 3 are seen by the author as potential beneficiaries of CF as they would need high levels of creativity and innovation to run a successful CF campaign. The crowd would be placed in the category of Promoters. The adoption of CF by both the Finnish entrepreneurs and the crowd would be essential for its success. However, some of interviews brought up a skeptical impression of the Finnish society when it comes to adopting a new service.

I am not sure if that is true if Finns are adopters of new innovations; Finns in general are conservative when it comes to new services. I think places like Silicon Valley are more active to try new things. I think there are other countries that are more open to new innovations than Finns. But of course we are better off than more conservative countries for example France when it comes to banking and new financial services.

Interviewee 6

The above interviewee conveys that Finland is slow in adopting new mechanisms, especially when it comes to financial services. However, the interviewee himself has started a disruptive financial service and has seen instant success. Therefore based on his personal experience he positions Finland as a conservative society when it comes to adopting drastic innovations. It can be inferred from the message that CF in Finland will take some time to achieve the level of adoption seen in USA or UK.

Another interviewee agrees with the fact that Finns are slow in adopting a new idea like CF, however he is of the opinion that education and marketing would be the key to overcome this initial resistance.

Finns take some time to adopt a new idea, but once they understand it picks up. Marketing the concept is the key; at the moment CF seems to be hot & there is a lot of discussion, but I wouldn't be surprised if they get bored.

Interviewee 3

Like many new trends, they are early adopters. But for majority it will take a while for it to become a significant choice. In a financial market, the traditional instruments have not evolved much. We also saw a bad example in 2008; hence it might be attractive for early adopters. But I don't think it would become the main source of funding in near future.

Interviewee 4

Interviewee 3 and 4 present the uncertainty regarding current state of CF in Finland. CF is new and has created a lot of hype and discussion among the Finnish population. However the overall feeling about sustainability of CF is unclear at the present state. Therefore in order to further analyze the factors influencing CF in Finnish context, the drivers and motives of CF are discussed in the next subchapter.

5.2. Drivers & Motives of Crowdfunding in Finland

5.2.1. Drivers of Crowdfunding in Finland

As discussed in the theoretical segments of both chapter 3 & 4, every venture including CFP's is driven by certain social, economic, technological, political or regulatory forces. However enough though a conscious attempt is made to differentiate, there is an overlap seen while discussing drivers and motives. In this section, an attempt is made to understand the driving forces of launching CFP's exclusive to Finnish market.

From the interviews it was very evident that all of the CFP's noticed an opportunity in the market with respect to new venture financing. All of them identified **economic forces** as one of the main forces driving i.e., the need for new avenues of entrepreneurs to procure finance and for the public to invest in something they believe in.

It is an additional source of funding in a situation where many young companies have difficulty in arranging funds.

Interviewee 4

The disposable income of Finns was highlighted by one of interviewees as the major forces for potential informal investment in entrepreneurship.

Affluence of Finns has grown over years – Even as student you get 20,000 euros and you have an opportunity to invest in entrepreneurship.

Interviewee 5

Furthermore, all the interviewees stressed on the **social force** as driving the Crowdfunding industry. Interviewee 1 summed up CF as satisfying the social and cultural needs of the young Finnish entrepreneurial population. This view point is fully supported by Interviewee 3 wherein the perception of the population towards need of transparency and openness in financing is highlighted.

CF is more flexible, transparent, fun and democratic.

Interviewee 1

Before making investment was behind the doors, now it is quite open. Anybody can do a funding campaign these days.

Interviewee 3

Another important social trend noticed is that, Finnish population has high affinity towards local products or services. According to Stenholm et.al (2012), 63 % of Finnish early-stage entrepreneurs look to satisfy only local market. They also analyzed established businesses and found only 8% had international orientation. One of the interviewees mentions this factor of understanding the Finnish societal context and localization.

Mesenaatti.me is Finland's first own Crowdfunding service serving the local Finnish market. Since there were international CF platforms already operating, we decided to offer a local Finnish platform; since the Finnish societal context is so different from the rest. Moreover one needs to understand the legalities and fund raising laws in Finland to operate such a service. Many of these regulations are quite different than that in UK and US.

Interviewee 1

Therefore, the above interviews sum up the opportunity recognition with respect to economic and social forces noticed by the CFP's in the Finnish society. It has been established in chapter 3 regarding the consistency of law in Finland positively influencing Finnish entrepreneurship. However, the above statement highlights understanding **Regulatory** norms in Finland as one of the main driving forces of starting a Finnish CFP. The legal restrictions pertaining to Finnish fund raising act has created an opportunity for formation localized CFP's.

Main point is the understanding of legal framework of a country; if something works in UK it might not work in Finland. For example - Invesdor offers services in Nordic & we understand the legal framework there. This is true for CFP's operating in UK as well. This is a natural barrier for entry I should say.

Interviewee 3

Therefore be it Finland or any part of the world, the schema of CF will be the same at operational. The discussion above clearly identifies significant drivers that have influenced the process of opportunity recognition as highlighted in Figure 25. While economic force is a significant driving force of CF in Finland, the social and cultural trends are seen as prominent drivers in a Finnish context. The understanding of Finnish laws and regulations is another important driver. In addition to all the drivers, the personality traits of individuals who have established Finnish CFP to satisfy local needs is also identified as another important driver.

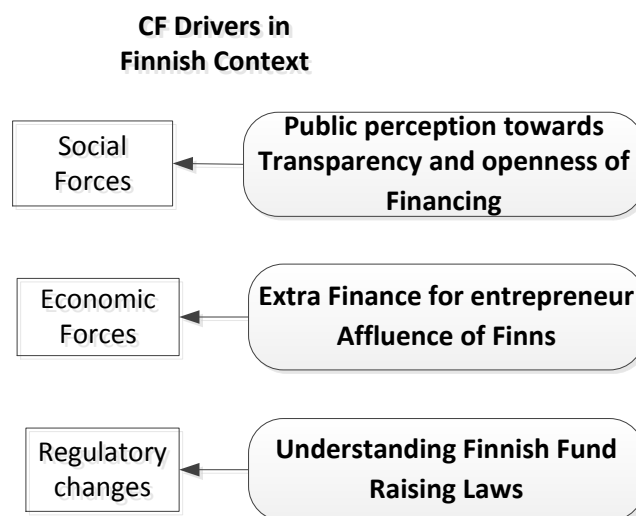


Figure 25: Drivers of CF in Finland

Personality of the entrepreneurs operating the CFP, their prior experience and cognitive factors like motivation and goals play a crucial role in defining the direction of the platform. The statement before by the owner of mesenaatti.me conveys a message the intention of starting CFP was to support projects more inclined towards generating social capital.

Me and my friend (co-founder) wanted to start a community financial service; one that could finance individuals or entrepreneurial companies to gather funds for their projects from the community or people themselves. I came across Kickstarter and related that it is similar to what we want to do in Finland as well.

Interviewee 1

Similarly, the prior experience of the team at Invesdor along with their network could be identified as an important driver in establishing the equity CFP. The experience and expertise of the team at Invesdor was with investment banking as compared to mesenaatti.me who had expertise in art and cultural.

Invesdor was an idea which just developed - While working on another project at some point we wanted to find out these free lancers working for this start up to own shares in that company & then we scanned the market & realized it is really complicated. The strength of our team is expertise in investment, legal & IT skills thus bringing a lot of trustworthiness into the company.

Interviewee 3

From the authors view point all the four interviewed CFP's have individuals with high levels of creativity and management skills. Fundedbyme however has a robust successful experience in Crowdfunding outside of Finland which is an important characteristic in them identifying opportunity in Finland.

The drivers influencing formation of local Finnish CFPs' was discussed in this section. However, the most important factor for the success of CF is crowd participation. Therefore the next section explores Crowdfunding motives with respect to both the crowd as well as entrepreneurs.

5.2.2. Crowdfunding Motives in Finland

The crowd, Crowdfunding platforms or website (CFP) and project owner are the three main elements of CF process (Lehner, 2013). The motivation for participating in CF for these elements could be either intrinsic, extrinsic or both as established in last chapter. The success of CFP totally depends on active participation by the crowd as well as project owners or entrepreneurs.

Both, the investors and the project owners are our customers. We need good high profile projects that draw the audience. The project is the stuff that we market to the audience (crowd). Take for example print media; you need good writers to get attention of the readers, when you get enough readers then you earn through advertisers. The same analogy holds good here.

Interviewee 1

The motivations for participation in Crowdfunding were discussed in the last chapter. One of the research questions in this thesis is to explore the motivational factors of entrepreneurs and crowd in Finland. This section attempts to answer this question.

Finnish Entrepreneurs Motives

Increasingly, Crowdfunding appears to be a viable source for entrepreneurial seed capital (Schwienbacher & Larralde, 2010 in Mollick, 2012). All the interviewees were of the opinion that the main motivation for a project owner or entrepreneur would be financial. None of the interviewees highlighted any specific point that would differentiate Finnish entrepreneur's motivation for participation in CF from rest of the world. However in addition to financial return, the interviewees identified CF as a business tool to understand the market and connect directly with the customer.

CF is quite intriguing way; it changes the whole model of setting up a company and developing a product because you are putting it out there at a very early stage and getting people to engage and actually put money to say "this is something I

want to happen". This is best possible measurement that you will have to know if people want to be part of the project or want that product at all.

Interviewee 6

The above interviewee brought up an interesting point of emotional connection between the entrepreneurial project and the crowd funder. The concept of Crowdfunding nullifies the gap between investor and customer thus ensuring low risk of failure. Moreover it gives the entrepreneur an insight into the market, through feedback from the crowd. The point of feedback from the crowd and direct connect with them was stressed upon by two of the interviewees.

In the point of view of entrepreneur; there is feedback from the crowd. In CF we are looking at a phase where we take projects which people want to see it happen. In CF it is more than investment from the crowd, it more of personal engagement with the project.

Interviewee 1

CF is specially is a way of receiving customer feedback. If private citizens are interested in investing, it verifies that your idea will be successful in the market. Your investors can be your potential first customers; it is flavor of market potential of your product.

Interviewee 4

The above statements clearly reiterate the motivation of an entrepreneur to participate in Crowdfunding beyond achieving financial goals. The advantage of getting an assessment of the market directly from the customers, thereby creating a two way communication channel for getting feedback could be a major motive. In addition to this eagerness to try out some novel and fun could also be a motive.

There are lot of eager entrepreneurs and startups willing to take part in CF. Finnish startups also want to go global!

Interviewee 2

The success stories of CF across the globe and the eagerness of Finnish entrepreneurs to be part of one such phenomenon has been highlighted by the interviewee. As mentioned earlier, Interviewee 1 mentioned CF as democratic and fun, which is also an additional motivation for entrepreneurs. One of the interviewees highlights the complete control of choosing investors in equity CF, thus having control over decision making in the future. This gives an entrepreneur big advantage as compared to approaching BA's or VC's.

Once you have opened the round and received the bids in, the entrepreneur can block the investor. The project owner has a final say if he does not like an investor at the end of the round.

Interviewee 3

The above statement conveys a very interesting point of openness of CF is securing finance. The freedom of choosing once shareholders thus maintaining the power of ownership and decision making could be a big motive. However, most of interviewees mentioned feedback from the crowd as well as personal engagement and financial return as the main motives for entrepreneurs in Finland to participate in CF. However, for the success of CF, engagement between the entrepreneur and their crowd holds the key.

Finnish Crowd Motives

Personal connect with a project forms the bridge between the crowd and the entrepreneur. De Buysere et.al (2012) mentions the factor of the crowd funding a specific project based on personal conviction towards it, often mixed with expectations of social and financial return. They mention emotional engagement, local needs, personal preferences and values that connect the project with the crowd.

In CF I find very interesting business ideas which can help me express myself. If I can invest in that company and thus belong to a community and help that company it motivates me. It is not only about money for me. Look, usually typical investors invest small amounts - Very rarely we see people investing huge amounts in CF. Hence mostly motivation is being part of community.

Interviewee 2

The interviewee clearly points to social and intangible benefits like being part of a community and feeling good factor as the main motive of the crowd to participate in CF. When questioned further about the potential benefits that could be derived through a success story; the interviewee still rated intrinsic motivation over financial return. However the interviewee feels that the possibility of being part of a successful company also motivates people to invest.

Of course, if the startup is a success crowd can be rich ; but usually the money that individuals from the crowd putting in CF is not so big in the beginning - Hence it is not investment only for financial returns but more being part of a success story.

Interviewee 2

The message conveyed above is also voiced by another interviewee, wherein an example is used to highlight the motives of investing via CF.

What I can think of is Finnish fashion designer; they could offer rewards as drawings, designs or scarf & share of profit. The motivation of why someone would fund this designer may not be financial, but they just love this designer and want to support him/her. They invest in what they love, but there is a chance of them getting a reward or profit, but if they don't they are still happy because they have the scarf & they are part of community. This is the kind of economy of being part of community.

Interviewee 1

Furthermore, when the same question was put forward to another interviewee who is a banker by profession, financial return seemed to be the sole motivation for investing through CF. He stressed that middle aged investors normally prioritize financial return especially when it comes to investing.

As a personal point of view, I would like to know where my money goes like stock market. My motivation would be financial as of now, may be if I have excess liquidity then may be something else.

Interviewee 5

Up until now, the interviewees prioritized investing solely based financial return or other intrinsic benefits. However, interviewee 3 very nicely summarizes the motivation of the crowd. The interviewee is of the opinion that the motivation for investing is circumstantial, depends on the values of the investor as well as the amount of money to be invested.

Financial motivation & social cause lies in everybody. The big investors or rich might have green values, but they might want financial return depending on amount of money. Personally, if I myself investing 100 euros, if it is a good cause I don't care about the return; I just give it. But if it is 10,000 euros, then I start to think about the return quite a lot; the good cause is still there, but it is secondary now. Everyone has a certain equilibrium level; trying to find the balance on motivation is interesting.

Interviewee 3

Therefore investing money on a project depends on the kind of return one expects in the end. From the interviewees it was evident financial motivation combined with other intrinsic factors form the core of investing in CF. Usually people investing through equity CF prioritize financial returns, however this cannot be generalized. One interviewee characterized crowd motives through the amount of money invested, while another stressed on financial return when he invests money. However most of the interviewees believe that participation in CF is mostly influenced by intrinsic factors

like being part of a community, being part of success story and support once cause with financial or material returns as an added benefit.

This section clearly points out the various factors motivation the entrepreneurs and the crowd to participate in CF. The next section summarizes the overall situation of CF in Finland.

5.2.3. Overview of drivers and Motives Influencing Crowdfunding

The discussions in the last subchapter as well as last two sections brought out several factors related to drivers and motives of CF. Drivers and motives of CF overlapped, however were discussed with different perspectives. From the theoretical discussion as well as information gathered, the CFP's were plotted using Thompson (1999)'s framework. However the author refrained from plotting the six perspectives as it was too early to precisely plot the Finnish CFP's. In addition to this, the main driving forces for CF in Finland along with motives were discussed and are summarized in Figure 26.

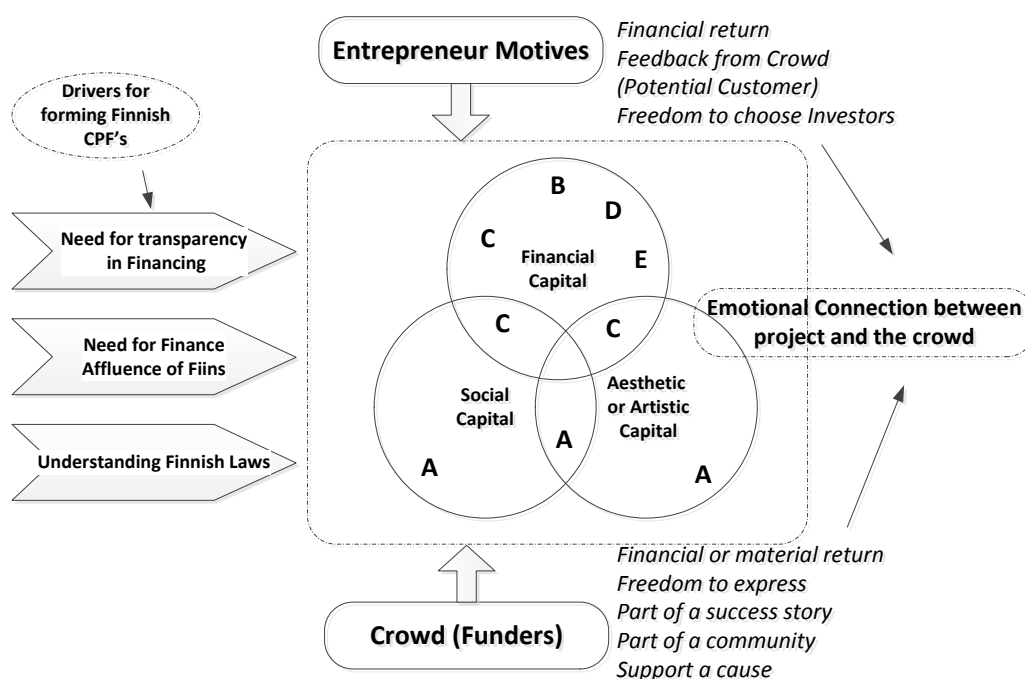


Figure 26: Overview of drivers and motives

Figure 26 summarizes the discussion till now, thus establishing drivers and motives of participating in CF. It is very evident that the motives of CF participation is similar to that discussed in theoretical sections. There was nothing new that was added which was very specific to Finnish context except the affinity of the Finns to look for local products and understanding of Finnish law differentiate the Finnish Crowdfunding services from the others.

This sub chapter on Motives and drivers discussed the factors influencing participation of crowd and entrepreneurs in CF. However CF process as discussed in chapter 4 are associated with a lot of practical challenges which has been discussed in the next sub chapter.

5.3. Practical aspects and Challenges in Finland

CF is an emerging issue and has attracted a lot of attention and hype in Finland. This sub chapter discusses the practical aspects and main challenges that CF in general faces in Finland. First section shortly discusses importance of marketing for the success of CF. The next section assesses risks associated with CF through the eyes of the interviewees. The last chapter is very specific to Finland wherein the challenges faced by Crowdfunding platforms are discussed.

5.3.1. Role of Marketing in Crowdfunding

Chapter 4 defined CF as a mechanism of linking entrepreneurs and crowd investors via the internet. The significance of internet, social media and overall marketing in this process was also established. In this section we explore the importance of marketing and social through the eyes of the interviewees. According to Ordanini et.al (2011), CF makes the customer as an investor, thus redefining thus the marketing management theories. Marketing places a crucial role in the success of the CF campaign. Marketing begins when the pitch goes live with the number of investors directly linked to the quality of the project and the marketing effort.

We see marketing as the key - entrepreneur has to do a lot to raise money, mainly market their product & idea during the campaign. Of course if the pitch is good, product is good and the team is good; entrepreneur should promote the project.

Interviewee 2

Interviewee 2 clearly identifies marketing as the key to success of a CF campaign. In addition to having a great project, it is very important to reach as many people as possible. This is because the crowd themselves act as agents of the project once they invest. According to Mollick (2012), quality projects attract backers who promote the project to other backers or external media, thus contributing to the success of the project. The CFP's associated marketing in mostly through online media and social networks. Interviewee 1 showcases the importance of social media with the very existence of CF.

The structure of the market and thinking of people is changing due to social media networks. I would not have thought of CF if there was no social media networks like Facebook, twitter etc. If you take Kickstarter, it is not just projects appearing there make them successful; project owner has to market & get his/her audience.

Interviewee 1

The emergence of Web 2.0 has boosted CF by giving the crowd opportunity to use and create content and also interact with others through social media networks (Ordanini et.al, 2011). Web 2.0 has been the reason providing access of information to the crowd thus paving the foundation for CF to function.

Because of web 2.0 everybody can publish and share ideas. Fundamentally it has changed the way how everything functions. With social media you can raise funds and get the word out or market without the burden of these huge teams or overheads.

Interviewee 1

I think social media is very important for our survival.

Interviewee 3

Similar to Interviewees 1 and 3, all other interviewees as expected endorsed the importance of social media and marketing in the success of CF project. However, the CFP's themselves need marketing in Finland to enter main stream as CF is still an emerging topic in Finland. Crowdfunding requires a pool of innovative ideas and a free word-of-mouth marketing channel (De Buysere et.al, 2012). This point was stressed by Interviewee 2, wherein the importance of reaching masses was mentioned.

We have to talk more about CF in Finland; I would like to see more articles on CF in newspapers, TV & so on.

Interviewee 2

The interviewee stresses on the need to promote CF in Finland, thus making it a saleable commodity. The success of CFP is linked to the success of the projects listed on its website. The success of both directly depends on the crowd participation, thus highlighting the importance of marketing. Overall this section does not highlight anything specific to Finland but generally highlights the importance of marketing in CF.

5.3.2. Risks associated with Crowdfunding

Chapter 3 introduced various financial options available to entrepreneurs and the subsequent consequences of taking any of those options. Equity financing came with the risk of sharing ownership and decision making powers with the shareholder. Debt financing was obtained through certain collateral and pre conditions which impact the running of the venture. Crowdfunding is seen as an alternate mechanism to finance new ventures, but has certain disadvantages and risks associated with it. Investment is never guaranteed and there is always a risk of exposing one's business idea.

The questions during the interview were kept as open as possible and one of the interviewees mentioned the CF is not for all ventures. Entrepreneurs, especially when looking for substantial financing look towards equity financing and subsequently will have to disclose information regarding their product or business idea.

CF does not work for everybody; if you are a company pending patents, this is not for you. You have to give information; if you can't it might be hard to sell.

Interviewee 3

Risks of Investing for Crowd

The entrepreneur allots time and resources behind a CF campaign in order to attract the crowd. The crowd invests mostly based on the information provided by the entrepreneur on the CF website and information available on social media or internet. Moreover, most of new ventures looking towards CF are nascent with very good but untested ideas. Therefore, CF exposes the general public to the risks of investing in a start up without having the expertise of a seasoned investor.

About 9 out of 10 startups fail; ratio is high. I think it would influence us, but it is a risk in investing in growth companies & I think the investor would understand this.

Interviewee 3

We say it on our website, the investing in a startup is risky. We do not share the risk; it is totally investor's wisdom and decision.

Interviewee 2

The interviewees although acknowledge the risks associated with CF they trust the wisdom of the Finnish crowd to make the right decision while investing in CF. Moreover there is a general feeling that the amount invested by a single individual is not so high as compared to BA's or VC's, therefore the responsibility can be vested upon Finnish crowd's wisdom and decision making.

As CF platforms, we need to educate people! What does it mean! It is safe, of course it has risks as you invest in a startup, but then you as an individual investor don't invest big amounts on one company.

Interviewee 2

Furthermore, during the discussion on risks of CF, the three CFP's were interviewed regarding the fraud prevention measures on their platforms. Fraud prevention and detection is necessary for functioning ethically thus gaining the trust of the crowd (De Buysere et.al, 2012). As discussed in earlier chapter of CF, risk of frauds and scams

might expose the Finnish investor as they are not directly linked to the project. However it is evident from the interviewees that none of the three CFP's had a robust mechanism to check for frauds.

Our company is a marketing platform via which the company offering reaches the crowd. We do have the screening process to improve their pitch, etc. & there is process when we qualify to go on our platform. There is a lot of work done on the pitch based on our criteria. To go on live - it have to be a incorporated company, we look at the idea, check on these entrepreneurs, etc. - it is a lighter process I would say.

Interviewee 3

We do not have any fraud protection guarantee on our platform. But the deal between buyer (crowd) and seller (project owner) come under consumer law & there is already a law of consumer protection covering this.

Interviewee 1

The above two statements position the CFP's as a marketing platform with its role being confined to an orchestrator. However there were some basic screening processes for the projects, but as acknowledged by interviewee 3 they are just basic. Interviewee 2 however voiced an opinion that they have certain quality checks before the project goes live. However, when probed further the interviewee also acknowledged that the role of the CFP was just of an enabler and not an auditor.

We do have quality checks and a set of criteria. Usually there is some work to be done from submitting the first draft. We coach the entrepreneur very often in making a presentable pitch to the investors. We insist on numbers, forecasts and presentable idea from the entrepreneur.

Interviewee 2

Both the equity CFP's were of the same opinion regarding the fraud prevention a showcased in the above two statements. Interviewee 1, being a reward based CFP also conveyed the same message.

No, we don't curate; anybody can approach us. But we just check that they seem right and rewards are as per the law. Of course if we notice something weird we will probe further; but it has not happened so far. In the end we just act as matchmaker; the deals that happen is between the project owner and the funder.

Interviewee 1

The above view also highlights the optimism of low fraud rate in Finnish society. Finns value integrity and most of the entrepreneurs are assumed to be honest; the same has been expressed directly by interviewee 1 and interviewee 6. This assumption is based on facts as Finland has low fraud rate and robust legal system to handle any such transaction. Another important factor is that transaction between crowd investor and project owner are covered under Finnish laws which will be discussed in the later sections.

This section clearly identifies the role of CFP's and the risk investors face while using CF. The amount of money invested by individual investors is low and in most cases motivation is not financial return, hence the mechanisms to protect investors in weak. CFP's provide marketing support to entrepreneurs to attract the crowd and in most cases do not curate the project. The Finnish CFP's at present have no robust screening mechanisms to protect the investors and assume Finnish crowd wisdom. The risks are clearly conveyed to the crowd investors through their websites, but then the question arises as to will the crowd be convinced to invest in CF. If so, will they be protected by the existing Finnish laws. These questions will be discussed in the next section.

5.3.3. Challenges of Crowdfunding in Finland

As discussed in the last section there are risks when it comes investing and participating in CF. De Buysere et.al (2012) highlights the risk of fraud or scams through CF platforms. They also state that the risk of fraud in CF is more likely as compared to other investing forms as the crowd has no direct contact with the entrepreneur beyond the information of the platform. In addition to this CF is a new concept in Finland and the environment surrounding it is very speculative. The recent controversy as mentioned earlier too has created a sense of uneasy sentiment among the Finns. In this section an attempt has been made to analyze the challenges CFP's in Finland face in the current environment. As mentioned earlier there is no differentiation between Finnish and International platforms except the language and localized expertise, thus staying closer to the customer.

Unlike international platforms like Kickstarter or Indiegogo which are rigid in their approach, we differentiate in a sense that we are a team offering a service by staying closer to the customer in a small country.

Interviewee 1

Despite having localized flavor to CF, the existing platforms face a huge challenge due to lack of information and awareness among the population. Even though there has been tremendous marketing surrounding CF phenomenon, the Finns are not well educated about the concept.

I think the biggest barrier is common to all CF platforms in Finland; People are not used to it or not aware of investing in CF. that's what we are trying to change with some initial success.

Interviewee 2

The above statement conveys clearly conveys the big challenge of educating the masses in Finland. There has not been much research either by the academia nor consultants about the implications of CF in Finland. Furthermore, interviewee 2 suggests that perception building is the biggest challenge currently the CF industry is facing.

Even when we along with our competitors make a success story it helps to overcome this challenge. Every time when something good happens, people will trust CF more. On the contrary if we or our competitors make mistakes, the trust will be lower. Gaining trust of the masses would be the key. Secondly, we have to educate entrepreneurs on legalities and how to promote their campaign.

Interviewee 2

In addition to educating the Finnish crowd, interviewee 2 also talks about educating entrepreneurs about CF, especially the legalities surrounding it. Analyzing and interpreting the Finnish fundraising laws has been one of the biggest deterrents the entrepreneurs as well as CFP's in Finland face. Interviewee 3 is of the opinion that when it comes to Finland one needs to study that laws before trying CF.

In terms of operational, there is not much differentiating factors between Platforms in UK, USA or Finland. It comes down to the trustworthiness of team & understanding legal framework.

Interviewee 3

The legislation for Reward based CF in Sweden is totally different from Finland. That is the biggest difference as we operate in different legal framework. In Sweden any individual can go for reward or donation based CF, but in Finland you have to have a permit or registered organization to raise funds this way.

Interviewee 2

Equity and Lending CF in Finland is covered by the existing legal framework, however the functioning of the reward based CF has created confusion in Finland especially after the controversy surrounding Senja Larsen's campaign on Kickstarter. Interviewee 1 clarified doubts regarding the controversy and the implications on the Finnish CFP's.

With reward CF you are selling something for a reward & pay VAT. It comes under consumer law & not fundraising law. But in Senja's case; she used

vocabulary like donate & fundraising, but in reality it was reward based transaction. I think the administration just overreacted; but we have been careful with this while designing our service. In Finland, you cannot have donation CF, unless you are an organization like NGO with permit for fundraising.

Interviewee 1

According to Interviewee 1, the legal dimensions in Finland pose a challenge with respect to reward and donation based CF models. The statement above also indicates existing Finnish laws are applicable for CF and need to be interpreted correctly in a Finnish context. This of course has to communicate clearly to the entrepreneurs as well customers to increase trust among the Finns.

The summary of the entire discussion in last two sections is illustrated in Figure 27. Given the multiple varieties of CF and the legalities associated with it, it is very important to get the right interpretation of laws in Finnish context. It is very clear that donation based CF is impractical for individuals in Finland and the fact is understood by all CFP's.

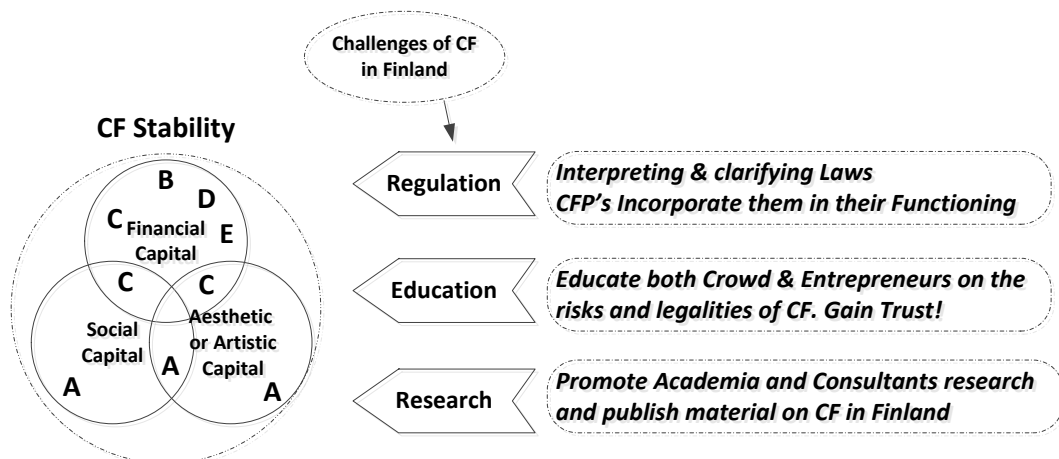


Figure 27: Challenges of CF in Finland

The challenge therefore is to design their services in a manner to satisfy the law as well their customers. Educating the crowd and entrepreneurs regarding the risks and legalities is the key to stability of CF in Finland. The Finnish CF industry is in its nascent stage and faces the basic challenges as discussed in this section.

5.4. Crowdfunding in Finnish Financial market

So far, the overview of CF in Finland and challenges faced in Finnish perspective has been discussed. The main objective of the thesis was to explore the disruptive aspect of CF with regards to other start up finances in Finnish context. An attempt has been made to answer this question in this sub chapter.

5.4.1. Positioning of Crowdfunding in Finnish Financial market

De Buysere et.al (2012) mentions that CF can apply leverage when all other formal financing mechanisms fail. In this section an attempt is made to position CF in the financial market with the view point of a Finnish entrepreneur looking for financing.

In terms of volume we are looking at a minimum of 1000 Euros, since we operate in small projects and are reward based. But we do look for big projects in the future.

Interviewee 1

Interviewee 1 was representing “mesenaatti.me”, a Finnish reward based CF platform. It was very evident from the interview that “mesenaatti.me” was established with the goal of helping innovators, artistic and small projects raise capital. The study of the projects listed on its website shows mostly projects with a social or artistic feature looking to gather between 1000 to 25,000 Euros.

However, equity CF looks at something bigger, with Interviewee 3 suggesting that CF in Finland could bridge the funding gap the usually entrepreneurs face during the seed/early startup phase. As mentioned in the last section equity CF may well have the potential to disrupt BA’s in Finland.

At least in Finland after friends and family, the only possibility is the BA’s & after that VC’s. You have Tekes, etc. - but all of them need own capital. CF bridges the gap from F & F world to the BA world.

Interviewee 3

Interviewee 3 represents “Invesdor”, a Finnish equity CF platform established with a goal of supporting new companies raise finance. The study of the projects listed on its website show projects looking to raise equity between 20,000 to 400,000 Euros posing a direct threat to BA/VC’s. Moreover Interviewee 3 clearly mentions the advantages of a successful CF campaign over BA/VC’s.

BA/VC give you lot of money, but get lot of control; whereas in CF you have the control even though you get lot of money. In a new business, if the management is weak & need help, then VC/BA can be good options, but otherwise CF is better.

Interviewee 3

Equity CF is ideal of early startup companies with a strong management team looking to remain independent and take risks. Equity CF provides them capital equivalent to that provided by BA’s but with the autonomy to take independent decisions. Interviewee 3

draws a direct comparison of equity CF with BA/VC's, hence indicating the overlap between these two modes financing.

Based on the literature study by the author and the information gathered through the interviews, CF in Finland can be positioned as discussed in last chapter. However, the question regarding CF being disruptive has been discussed in the next section.

5.4.2. Disruption to Traditional venture financing

De Buysere et.al (2012) regards CF as a democratic tool that has a disruptive impact on community, start-up and consumer finance. In the limited literature published, there has been repeated mention on the threat of CF to other traditional financial mechanisms. Is this assumption valid in Finnish context, if so how? The same question was asked to the interviewees.

CF is a new and alternative way of fundraising; it is not the only way. You still have banks, BA/VC's - In the future I think CF will be used in combination with banks and BA/ VC's or so called traditional funding mechanisms.

Interviewee 3

CF is not going to completely replace existing models for financing businesses, but it is going to create a whole new way of financing. It is going to expand the possibilities of companies to finance their ideas and set up new companies. I think there is going to be a lot of action in this area during the next few years.

Interviewee 6

Clearly the interviewees felt that in the present environment, CF is new and they do not see it to be disruptive to established financing mechanisms in Finland. However they were of the opinion that it is going to be an additional source of funding for entrepreneurs. Interviewee 4 being an expert in banking was of the opinion that the volumes of banks surpass that of CF and thus sees no threat to banking business.

I don't see banks losing business to CF. I think on the contrary, CF might increase the total volume of financial market & increases the availability of funds for companies.

Interviewee 4

This opinion was also shared by interviewee 3 whom we consider an "insider" in his capacity as the owner of an equity CF platform in Finland.

No, we don't think we are disruptive to banks as of now. In Europe banks provide 70% of the financial needs of companies, but in US it is 20 to 30%. In US money comes from the free market. So it is quite different in Europe.

Interviewee 3

Based on the above two statements an important inference could be derived that CF does not pose a practical threat to debt financing via banks. However, Interviewee 3 felt that equity CF could be of disruptive nature to Business angels in Finland. Moreover there was optimism regarding the potential of CF in Finland.

Yes I think we are disruptive for BA's. In a sense CF overlaps this BA world. Already in UK, where CF is very successful, you have cases of companies bypassing the VC's and go to CF.

Interviewee 3

The interviewee 3 felt that CF had a genuine chance of disrupting BA's in the future. As discussed earlier, BA's in Finland fund anywhere between 10,000 to 100,000 Euros per venture which have been practically achieved through equity CF; this could one of main reasons for the interviewee's point of view. However another interviewee looked at BA/VC's collaborating and using CF to their advantage.

I think BA/VC's will work together with CFP's. Many BA's are interested in finding new interesting companies. At an international level, we have had experiences wherein some VC's who bring us a company & invest, but they also want to see the European crowd response. They want to mix the traditional ways of investing with CF.

Interviewee 2

However another interviewee completely rebuts the claim that BA's or VC's would consider using CF.

BA's get deal flow anyways, they don't need our services.

Interviewee 3

Therefore, from the above discussion it is very evident that it is too early to understand the influence CF would have on BA/VC's in Finland. According to Mollick (2012), it is unclear at present to what degree CF would disrupt or replace other forms of venture financing mechanisms. There is similar pattern derived from the interviewees with respect to CF in Finland. It could be inferred that CF would not disrupt banks, but there were some differences of opinion with respect to equity financing. Overall, within the

present environment in Finland, CF is viewed to be an alternate supporting funding mechanism rather than a disruptive one.

5.4.3. Alternate source of Investment for Finns

According to De Buysere et.al (2012), CF promotes collective wisdom of the crowd, thus replacing traditional fund managers and investors who act based on personal understanding and experience. In the last section it was established that CF in Finland is an alternate source of funding for entrepreneurs and is not yet seen as disruptive in nature. Moreover there was also mention of equity financiers using CF as testing platforms before making an investment. But, the most important element of CF is the Crowd funder and thus this section explores who would be a typical Finnish CF investor. The same question was asked to the interviewees.

This CF is for people who want to be involved, but don't have full time. People who have invested in shares and mutual funds & want to invest in startups. Our typical investor; we don't have enough data yet. But our assumption is "a person who have invested in shares or mutual funds, in the range of 30 to 50 years, normally they will be male.

Interviewee 3

Equity CF is seen as an alternate source of investment for middle aged Finns looking for financial returns. Interviewee 3 feels Finns who invest in shares and take calculated risks to take interest in equity CF. One reason for this assumption could be the financial affluence of Finns.

Typically Finns have excess liquidity in their bank accounts. Currently Finns are moving towards Stock market & mutual funds (75% in interest rate & 25% in share market). Personally I have thought of investing in startups. I see startups & see that some of them will make & get good return on investment.

Interviewee 5

Interviewee 5 being an expert in banking industry observes the trend of Finns taking risks in making their investment plans. The informal investor rate in Finland would increase with more investors looking to take risks in lieu of higher returns. According to Mollick (2012), the crowd interested in CF has some features of BA/VC's while evaluating their investment and wanting to be part of a successful project.

The motivation to be part of an entrepreneurship and startup is exciting for the crowd & when they see an interesting idea with a professional and trustworthy team behind such startups, the crowd wants to be part of this success story.

Interviewee 2

From investors' point of view, it gives opportunity for interested individuals who can't become BA and invest in something that they believe in or in some innovation activities. It gives small time investors other opportunity than stock market. It is an alternative for investors.

Interviewee 4

The above two statements were made keeping Finnish population in perspective, thus indicating the rise of entrepreneurial investor sentiment in Finland. Interviewee 2 looked at the Finnish crowd looking for an alternative to invest beyond traditional investments. CF provides an alternative for someone that wants to make a decision where his/her investment should go. Interviewee 4 was of the opinion that the attitude of BA's was also in common Finns and CF offered them with an option of experimenting beyond the stock market. Moreover, the question of moral values and motives is another incentive that CF would offer a potential Finnish investor.

With the exception of ethical funds, the investment instruments that are available are very much about profits. You rather do not have any control where your money goes, but only can decide how safe it is & ROI. Therefore CF is exciting new comer as it would give me opportunity in invest in something that gives ROI but also gives a pleasure of being part of community or group.

Interviewee 4

Overall, the general perception among the interviewees was that of optimism and positivity, especially with respect to CF as an alternative source of investment in Finland. There seems to be a consensus that CF is new form of investment for the Finns with a democratic touch. In addition to this most interviewees felt that Finns would look beyond just financial motivation and adopt CF in the near future.

The next chapter summarizes the discussion in this chapter along with the theoretical and practical aspects discussed in chapter 3 and 4. An integrated framework along with summary of results has been presented in the next chapter.

6 Discussion and Analysis of Research

The objective of the thesis was to analyze if CF would be a disruption to existing financing mechanisms in Finland. Furthermore, the thesis defines CF and analyses the parameters influencing CF in Finland. This chapter summarizes the entire analysis spread over three chapters and highlights the results. The chapter is divided into two parts; first one represents CF in a Finnish context and second one talk about limitations of the study done.

6.1. Research Summary and Implications in Finnish Context

Entrepreneurial finance in Finland

The state of entrepreneurship and entrepreneurial finance in a Finnish context was discussed over chapter 3 and chapter 5. The author conducted a detailed literature study in section 3.3 and supported in section 5.1 through the interviews. The highlights of this study can be summarized as

- Entrepreneurial intention is on a rise in Finland, especially among the younger generation who view it as a potential career choice, thus creating a huge demand for entrepreneurial finance.
- Equity Financing in Finland has dropped drastically post the 2008 crisis. Venture capital and Business angel investment in new ventures have dropped by 30 to 40% per venture as compared to 2007. Debt financing via banks have decreased post the crisis. Banks have a safer, low risk policy and hesitate to lend to nascent ventures.
- The rate of Informal investors is increasing and the willingness to take risks in investment is booming. The affluence of Finns has increased over years, thus creating a huge investor base looking for opportunities to invest.

Therefore, the lack of entrepreneurial capital in Finland combined with the local Finnish population affluence and willingness to invest creates a business opportunity for CF in Finland.

Representation of Crowdfunding in Finnish context

There are currently five Crowdfunding platforms and their orientation has been discussed in detail in section 5.1.2, wherein the type of projects promoted and capital

generated has been illustrated. The analysis of the information gathered from literature study and qualitative interviews is showcased in Figure 28 and summarized as

- CF is in an emerging state in Finland and lags behind other innovative economies with an uncertainty surrounding its adoption in Finland.
- Finnish attitude of promoting localized services and understanding of Finland specific fundraising laws acted as drivers for setting up of Finnish CFP's. There were other social and economic drivers discussed in section 5.2.1.
- Motives for participation in CF are not different from rest of the world and showcased in Figure 28, with emotional connection for the project being the main motivational factor in addition to financial or material returns.
- Financial return for the crowd does play an important part depending on the amount of investment made on the project.
- Understanding of Finnish laws is the key to run a CF campaign and educating the Finns is the biggest challenge CFP's currently face in Finland. Gaining the trust of people through communication, research and success stories is the current priority of these platforms.

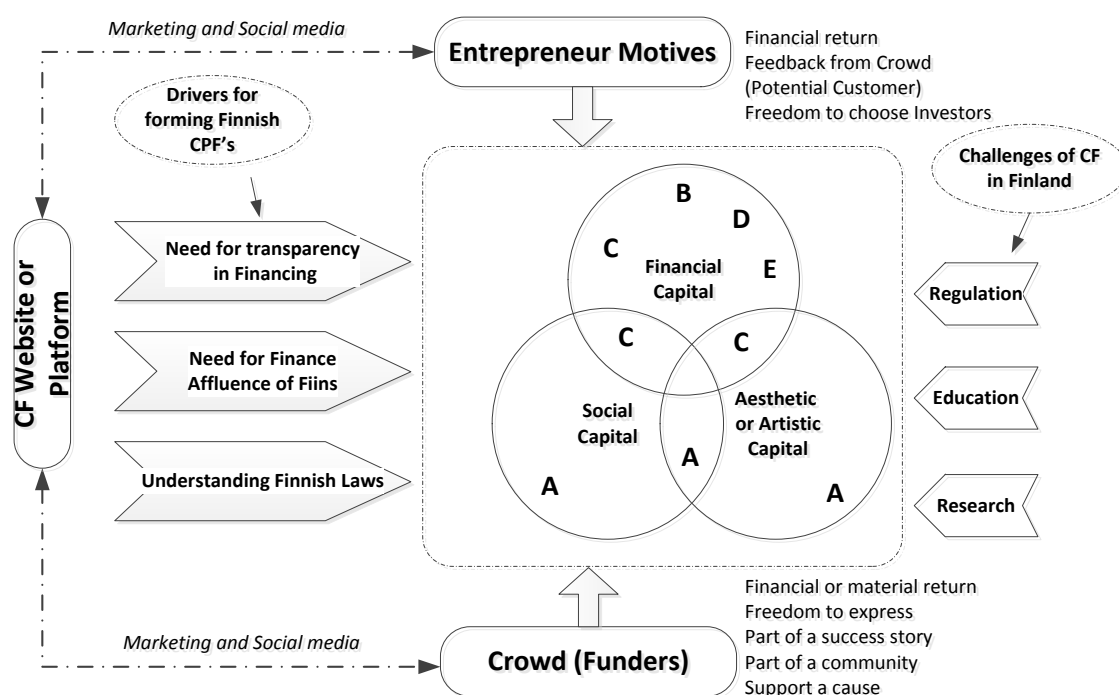


Figure 28 Crowdfunding analyses in Finnish context.

As highlighted in Figure 28, the Finnish entrepreneur's need for risk free finance, crowd investor's need for an alternative investing forum coupled with failure of international CF platforms to operate alongside Finnish fundraising laws form the main drivers of localized CF platforms in Finland.

From motivational perspective, financial return coupled with other intrinsic benefits motivated both the entrepreneur as well as the crowd. From financial perspective, the factors of ROI and knowing where ones investment came out as an important motive for

the crowd. For the entrepreneur, CF formed an alternate way to fund the venture with almost risk free capital and also understand his customer base. From an intrinsic perspective, emotional connection with the project or entrepreneur with other benefits like being part of a community, part of a success story and freedom to express oneself highly motivating the crowd. Moreover, equity CF motivates entrepreneurs as they provide risk free capital and decision making stays with the entrepreneur. This is not the case with BA/VC's where decision making could be shared.

Finnish Crowdfunding platforms face unique challenges while operating in Finland as analyzed in this thesis and highlighted in Figure 28. CF is an emerging issue in Finland and the knowledge of the Finns about this concept is very nascent. Understanding the Finnish laws and customizing services to be able to operate in Finland is a challenge already overcome over the last one year. Educating the customers i.e., both the Finnish entrepreneur and the crowd regarding the legalities and benefits of CF is a huge challenge in the current scenario. There is a need for Finnish CFP's to market them and achieve greater success stories to build trust within the community. More research by academia and market experts on CF needs to be undertaken in Finland to gain the confidence of the Finns.

Crowdfunding as a disruption in Finland

The discussion on disruptive nature of CF in Finland was analyzed on two fronts; one from entrepreneurial finance perspective and the other from an investor's perspective. The highlights of this study can be summarized as

- There is a funding gap with respect to new ventures, especially seed and pre seed capital in Finland.
- CF, especially equity CF positions itself in the territory where Business angels operate. Ventures have up to 100,000 Euros in Finland through equity CF.
- One interviewee suggested BA and VC's investing in ventures through CF initially, while another suggested otherwise and felt equity CF would be disruptive to BA's.
- Volume of banks and VC's too high for equity or reward CF to act as disruption.
- The majority voiced opinions that CF would not be disruptive, but instead added potential to the funding market and acted as an additional source of funding which entrepreneurs could explore.
- A positive sentiment was expressed by all interviewees with regards to the Finnish investor participating in CF. Equity CF was seen by two interviewees as attracting Finns dealing in the stock market or mutual funds. However, there was no sentiment of threat or disruption at the present state.

The summary of the entire analysis has been represented in figure 29 using the Dedehayir & Nokelainen (2011) framework (Appendix 1), thus showcasing the present state and emerging state of CF in Finland. Equity CF is seen as having potential to

disrupt Business angels in the future. However, there is not enough evidence to back this statement in the present state; hence it is positioned in between antagonistic rivalry and fraternal rivalry. There is a divide of opinion on whether BA's would use CF to complement their business or CF would disrupt substitute BA's completely.

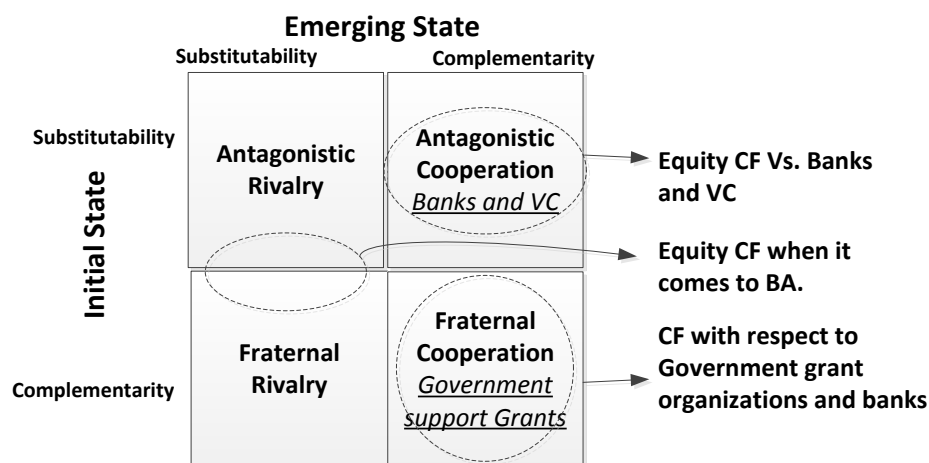


Figure 29 Crowdfunding being disruptive.

Furthermore, Government funding mechanism like Tekes view CF as a welcoming addition to the financing world, thus positioned in the category of fraternal cooperation. However banks and VC's are positioned in the category of antagonistic cooperation. Banks have huge volumes, however with respect to pre seed capital, CF is seen as an avenue to get the necessary capital before approaching banks for further financing. Similarly VC's surpass CF in volumes, but can be seen to collaborate with CFP's to explore financing options in the future.

Other Practicalities of CF in Finland

Over the course of the study and analyses, there were some important practicalities that surfaced and have been summarized -

- Donation CF is not practical for individuals in Finland; it is only applicable for NGO's or non-profit organization under the Finnish fundraising law.
- Reward based CF campaigns must be carefully designed – The project must sold under consumer law. There should be a fixed price for a reward to make it look like a sale and VAT is paid for the transaction.
- The success of a campaign depends on the quality of the project, social networking capacity of the entrepreneur and marketing reach of both the entrepreneur and the CF platform.

The study attempts to answer all the research questions raised while defining the objective of the thesis. Overall, Crowdfunding in a Finnish context has been discussed elaborately during the course of this research.

6.2. Limitations of study and scope of further research

This study has made an attempt to understand the emerging state of Crowdfunding in Finland and explore if the phenomenon would be disruptive to existing mechanisms. In addition to the drivers, motives and challenges of CF in Finland has been explored. The research was based on interviews with decision makers of three Finnish Crowdfunding platforms and outside opinions from a senior banker, a top government official and a financial service entrepreneur. However the research does not include direct opinions from entrepreneurs or crowd who have used CF. Furthermore, even though the study was on Finnish perspective of CF, the interviews with global CFP's would have added more value to the study. Nevertheless, this study is a good start in academic research on CF in with a Finnish perspective.

Participation of the crowd and entrepreneurs holds the key for success of CF in Finland. In addition to this Finland is quite a small market and the exact potential of CF needs to be studied. This study positioning CF in the financial market based on existing data and assumptions made by the interviewees. Therefore there is huge potential for further research in exactly defining the funding gap in Finland and thus analyzing if CF can actually meet these needs. In addition to this, the motive of the Finnish investor needs to be studied in detail to know the possibility of them moving from traditional investing mechanisms.

Crowdfunding is an emerging phenomenon in Finland, with the government machinery still in a nascent stage of understanding its reach and potential. CF has risks associated with it and critics identify potential for frauds and scams through this mechanism. The present CF platforms assume the crowd wisdom in make an investment. Therefore there is a huge potential for research in understanding the loopholes and helping the industry protect its customers from these frauds. A process of accountability and consumer protection is another area that required further research.

7 CONCLUSION

This study is conducted to analyze CF as a potent new entrant in the Finnish fundraising market. The overall objective is to analyze if CF would disrupt traditional fundraising mechanisms in Finland. However, CF being a new phenomenon is to be defined in Finnish context and parameters associated with it have been analyzed. The objective is reached though an integrated framework showcasing CF in a Finnish context. The research methodology of literature study and qualitative interviews is adopted to achieve it.

Within the scope of this thesis, Crowdfunding is defined as a process of an individual or group of individuals raising capital for a cause; be it cultural, social or business. This is achieved by attracting small contributions from a large crowd using social media and internet as the medium for communication. The study highlights that entrepreneurial intention is on a rise in Finland creating a huge demand for entrepreneurial finance. Traditional debt and equity financing have dropped post the 2008 economic crisis, thus creating a funding gap for new ventures. Moreover, the affluence of common Finns and risk taking intent has increased over years. This change has created a need in the market for democratic and open fundraising mechanism, with CF having these qualities. Although banks and VC's surpass CF in sheer volumes, there were some apprehensions regarding equity CF being disruptive to Business angels. However the study concludes that in the present scenario CF is an alternate mechanism rather than a disruptive one. In addition to this it was established Finns are slow adopters of new innovations and financial services.

Furthermore, while achieving the main objective of analyzing CF, an integrated framework highlighting drivers, motives and challenges of CF was developed. The understanding of Finnish fundraising laws and affinity of the Finns towards localized services proved crucial for the success for CF in Finland. The study also shows that donation based CF is not legal in Finland for individuals and reward based CF needs to be designed carefully to meet legal requirements. The Finnish CF platforms have incorporated these factors in their services, however further research by academia and consultants would build consumer confidence. Although there has been some effort in marketing CF to the Finnish entrepreneur, educating the crowd regarding the risks, benefits and legalities of participating in CF is however seen as the biggest challenge of CF in Finland. Overall the study showcases positive and welcoming sentiment towards CF in Finland.

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APPENDIX 1: Dedehayir & Nokelainen Framework

This section is a short introduction of a framework introduced in the authors “Technology strategy” course at Tampere University of Technology by the co-author of the Dedehayir & Nokelainen (2011) framework to analyze Disruptive Change within Value Networks. The framework has been used to present the concept of Crowdfunding Vs. other financing mechanisms and is illustrated in Figure 30.

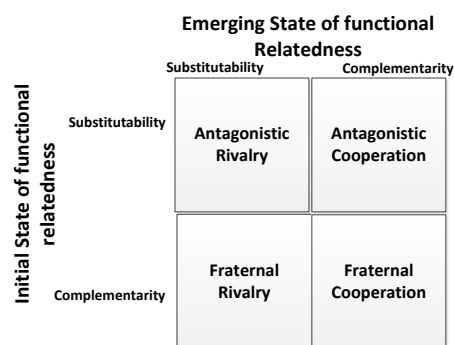


Figure 30: Dedehayir & Nokelainen Framework

The framework plots the substitutable or complimenting nature of an emerging mechanism. For example, Railway in Europe in the 1980’s was complimentary to the air service within Europe. A person would take a train within one country and then fly to another EU country. However, currently Railway is considered to substitute air travel within EU as one could travel to another EU country by rail, showcasing an example for fraternal rivalry.

The oil and gas industry has always been complimentary to the automobile industry, with petrol and diesel vehicles complimenting the oil industry for decades. Therefore this could be placed in category of fraternal cooperation. On similar lines, the ecofriendly vehicles have always been a substitute for oil and gas, thus placed under antagonistic rivalry.

Thus, this framework could be used to compare whether two parameters compliment or substitute each other as explained in this section.

Appendix 2: Transcripts of Interviews

Interviewee 1

Pauliina Seppälä

Founder

Mesenaatti.me

Q: Could you describe about Mesenaatti and how did it start?

Mesenaatti.me is Finland's first own Crowdfunding service serving the local Finnish market. Me and my friend (co-founder) wanted to start a community financial service; one that could finance individuals or entrepreneurial companies to gather funds for their projects from the community or people themselves. I came across Kickstarter and related that it is similar to what we want to do in Finland as well.

Since there were international CF platforms already operating, we decided to offer a local Finnish platform; since the Finnish societal context is so different from the rest. Moreover one needs to understand the legalities and fund raising laws in Finland to operate such a service. Many of these regulations are quite different than that in UK and US.

Q: What type of projects are you targeting?

We feel that Finland is a small market; hence we would like to keep it general; be it service, business, individual project, R & D, cultural, etc. But, I and the co-Owners background is from social and culture, hence we are more acquainted with these projects & could offer our expertise. But the platform as such is open for all innovation and other new ventures.

Q: What is the volume of funds per project you are looking for?

In terms of volume we are looking at a minimum of 1000 Euros, since we operate in small projects and are reward based. But we do look for big projects in the future.

Q: Do you make any efforts to protect the investor?

No, we don't curate; anybody can approach us. But we just check that they seem right and rewards are as per the law. Of course if we notice something weird we will probe further; but it has not happened so far. In the end we just act as matchmaker; the deals that happen is between the project owner and the funder.

We help projects market basically; we are a marketing platform for project owners to make their project felt, we also offer advice.

We do not have any fraud protection guarantee on our platform. But the deal between buyer (crowd) and seller (project owner) come under consumer law & there is already a law of consumer protection covering this.

Q: Whom do you consider as your customers?

Both, the investors and the project owners are the customers. We need good high profile projects that draw the audience. The project is the stuff that we market to the audience (crowd). Take for example print media; you need good writers to get attention of the readers, when you get enough readers then you earn through advertisers. The same analogy holds good here.

Q: What type of CF category does your service come under? Will it be Equity or reward?

I really do not understand the classification or why should there be a barrier. Legally you can offer equity or profit as reward. We offer reward CF, but equity can also be offered as reward. We already had a project, wherein a magazine offered equity as reward; it was similar to Sellaband where people can support musicians & in return the musicians offer share of the profit.

Q: What are motivations for Investing in CF?

What I can think of is Finnish fashion designer; they could offer rewards as drawings, designs or scarf & share of profit. The motivation of why someone would fund this designer may not be financial, but they just love this designer and want to support him/her. They invest in what they love, but there is a chance of them getting a reward or profit, but if they don't they are still happy because they have the scarf & they are part of community. This is the kind of economy of being part of community.

In CF we are looking at customers becoming participants. It is a choice of either spending your money as passive consumer or on something meaningful. The structure of the market and thinking of people is changing due to social media networks.

In the point of view of entrepreneur; there is feedback from the crowd. In CF we are looking at a phase where we take projects which people want to see it happen. In CF it is more than investment from the crowd, it more of personal engagement with the project.

Q: What are your comments on the Senja's recent CF controversy on Kickstarter?

The whole thing is a media story. There is actually no problem; you can have fundraising with permit from the government, but what happens on our platform is like web shop. You are selling something for a reward & you pay VAT, etc. It comes under consumer law & not fundraising law. But in Senja's case; she used vocabulary like donate & fundraising, but in reality it was reward based transaction. I think the administration just overreacted; but we have been careful with this while designing our

service. We don't tell that if you invest 10 euros or more you get this reward, but we tell you invest 10 euros you get "x", if 20 euros you get "y". It has to be fixed, but not donating. In Finland, in CF you cannot have donation CF, unless you are an organization like NGO with permit for fundraising. In all other cases you need a reward.

Q: Who do you recon as competition?

Anybody can raise funds themselves; you do not need a platform to raise funds; that is a biggest competition. All the web shops could be our competition; you put a product there & sell stuff.

Other international CF platforms can be our competition.

Adding to this, we have currently started approaching large Finnish foundations to invest on projects via CF & if that works they that would boost our platform. In Finland, it is very hard to find the crowd, since it such a small market. We need to find all possibilities to find the sources of funding; we encourage project owners to call companies in addition to market to the crowd.

Q: Do you think your CF platform is sustainable in Finland?

I think if we could get the public sector, the foundations and the companies along with the crowd involved. It is important in the future to be part of the funding system. Finland is such a small market; actually there is no great profit, we just do this for a living and out of curiosity. It is not a very lucrative market in my opinion.

Q: How long is a campaign on CFP?

Not everybody succeeds on CF, everybody knows that! I think 4 months would a long time for a campaign; I think it would be shorter like 3 months. We can negotiate this with the project owner in person. Unlike international platforms like Kickstarter or Indegogo which are rigid in their approach, we differentiate in a sense that we are a team offering a service by staying closer to the customer in a small country.

Q: What would be the pattern of investment flow in a campaign?

So far from few projects, I have noticed it is a U curve. In the beginning there is Friends and family, active people and then it stagnates. People start to panic in this stagnation period. Then the project owner needs to work very hard on marketing to make it climb again.

Q: Based on the demographics of Finland, who do you think would be attracted towards CF as funders?

The older people have more money, but young people are more open to this type of CF. There was another bachelor thesis done on CF & according to that study young people participated more & I think that is the case too. But in cultural projects CF is just beginning in Finland, so it is hard to tell yet.

Q: Why do you need CF in Finland in spite of having existing funding mechanisms?
CF is more flexible, transparent, fun and democratic.

Q: What is the influence of web 2.0 and social media on CF?

I would equate it with invention of printing press or railways. Because of web 2.0 everybody can publish and share ideas. Fundamentally it has changed the way how everything functions to the point where you do not need organizations. You have huge marketing and investment teams in formal organizations bearing a lot of costs. But now with social media you can raise funds and get the word out or market without the burden of these huge teams or overheads. I see CF as a part of new economic structure.

I would not have thought of CF if there was no social media networks like Facebook, twitter etc. If you take Kickstarter, it is not just projects appearing there make them successful; project owner has to market & get his/her audience.

Q: Realistically what is the market potential you see for say one year from now?

My partner predicts it to be a million euros through CF in Finland this year, but I think we would make it by next year this time.

Furthermore, we have been having negotiations with large Finnish foundations & I think in arts and culture, the funding is in such a crisis. One big threat is digitization of art content; everything is there for free. The question arises - how will the artist earn. This is understood by people in Finland & CF is looked at something that might save this. Hence the large institutions are positive on using CF to save art.

I think we were slightly late in launching our service; we lost the first movers advantage. We have been contacted by approximate 300 project owners, but we have not been able to evaluate all of them yet. During the first night that we publicly announced our platform, we received 40 projects. People are enthusiastic and trust our CF platform.

Interviewee 2

Kristiina Pääkkönen

Country Manager – Finland

Fundedbyme Equity

Q: Can you describe Fundedbyme with respect to Finland?

To start with, I work as a country manager in Finland & our company was established 2 years ago in Stockholm. It is the fastest growing CF platform in EUROPE with offices in Norway, Spain & Denmark too. We plan to open more offices; since we are the fastest growing, we can offer a wide network.

Q: What services do you plan to launch in Finland?

In Finland, we are the only player that has both equity as well as Pre Sales (Reward).

Q: What are the objectives, goals and mission in Finland?

When we started in Jan 2013, we wanted to establish the company and start getting publicity in Finland & that what we managed to do! We were mentioned in major newspapers & every time Journalists write about CF Platforms we were mentioned. We also have our FINNISH cases on board & what we want to do currently is to successfully launch the first FINNISH cases we have. I hope in August we will complete the financing round, as it takes 4 months to do so. As a company we have raised more than 3 Million Euros from all country operations this year.

Q: What is the motivation to start in Finland? Is it just a trend? Why Finland?

We see that Finland is an entrepreneurial country; there are lots of eager entrepreneurs and startups willing to take part. Finnish startups also want to go global!

Q: How do you differentiate yourselves from other CF in Finland? What is the biggest barrier for entry that you faced in Finland?

I think the biggest barrier is common to all CF platforms in Finland; People are not used to it or not aware of investing in CF. That's what we are trying to change with some initial success. For ex: Mr. Matti Vanhanen the head of family business association & former PM of Finland is one of our investors. I interviewed him in June about CF & he told me that he is supported of CF & has invested in one of our projects in Finland. The change is happening!

How are we different from our competitors - In Finland we are the only player to offer both equity and Reward based services. We are international & have very active network, hence Finnish companies can also find European money.

Q: You are looking for investors outside Finland too?

YES, of course! We have offices in other locations too as mentioned earlier; hence we are looking for EU customers (investors and entrepreneurs).

Q: Do you think the Finnish market ready for CF? What do you think are the Drivers?

As CF platforms, we need to educate people on what it means! Need to promote that it is safe; of course it has risks as you invest in a startup, but then you as an individual investor don't invest big amounts on one company. We have to talk more about CF in Finland; I would like to see more articles on CF in newspapers, TV & so on.

You mean The Finnish crowd is not yet prepared?

No, it is more ready than last year. It is getting better, but we have not yet seen a huge wave so that the masses come to CF.

What is the difference between operations in Finland and Sweden?

I think it depends on our background, we started with equity based CF only in September 2012, before that we were only reward based. Most of our customers from Sweden are for reward based. The legislation for Reward based CF in Sweden is totally different from Finland. That is the biggest difference as we operate in different legal framework. Ex: In Sweden any individual can go for reward or donation based CF, but in Finland you have to have a permit or registered organization to raise funds this way. It is very free in Sweden; therefore in Finland we are mainly looking for equity based CF cases, but we have kept reward based services open as well.

Q: Do you offer legal & auditing services along with CF to support your ecosystem?

Yes, we do offer them; but our main business is matchmaking between entrepreneurs and European investors. Those who want legal help like shareholders agreement, etc.; we have partners with law firms who help in this regard.

Q: Who do you consider as your customers? What is the value you provide?

Both the investor and entrepreneur are our customers. As an entrepreneur you can raise money through our platform from EU investors. We have more than 10,000 investors registered with us. Say for example there is Finnish entrepreneur who came up with a product & wants to launch it all over Europe. He could do so using our service, find community & supporters who become their shareholders.

Let me elaborate with an example, there was a Swedish liquor company called virtuous spirits; they wanted to launch organic colorful vodka called virtuous vodka & in two months they raised 1 million Kroners & found 103 new shareholders. So what did they get - of course these 1 million Kroners', but also a community which was formed - This community of shareholders and other supporters went to "Sweden's Alco" & lobbied to put this product in the liquor stores. Now the "Sweden's Alco" is selling this product.

What can we offer to investors - A normal person for ex: has work, is a customer for some company .Hence it is not very typical for a normal person to be a business angel. What CF can offer is that "ordinary person can become a small business angel, they can kind of play being an entrepreneur & also be part of a big success story. Very often the motivation is being part of an entrepreneurship and start up is exciting & when they see an interesting idea with a professional and trustworthy team behind such startups, the crowd wants to be part of this success story.

Of course, if the startup is a success crowd can be rich ; but usually the money that individuals from the crowd putting in CF is not so big in the beginning - Hence it is not investment only for financial returns but more being part of a success story.

In our platforms, we have also seen BA & VC's watching new startups. They put little money in these ventures & look for how does it go. When it is time to put more, they invest later. This is an example of BA/VC's working together with CF.

Q: Is there some screening for the projects on your CFP?

We do have quality checks and a set of criteria. Usually there is some work to be done from submitting the first draft. We coach the entrepreneur very often in making a presentable pitch to the investors. We insist on numbers, forecasts and presentable idea from the entrepreneur.

Q: With respect to equity CF, does the entrepreneur or project owner reserve the right to accept or reject an investor?

This is what I love about CF; the power is with the entrepreneur. He/she can decide who can invest after the bid is made! Usually with BA/VC/Banks, the entrepreneur keeps pitching and begging money, but in case of CF it is contrary. For example, in case of virtuous vodka, they accepted 103 investors from around 200 bids. When he/she starts a campaign on our CFP, a minimum amount of investment has to be decided; for example one Finnish case we have currently has kept lower limit as 20 euros; their main motivation was to get more crowd into the project.

But the minimum could be 1000 euros as well & the entrepreneurs decide what kind of shareholders agreement because usually they don't want to give voting rights to minority shareholders.

Q: Would you say financial return is the main motivation w.r.t to equity CF?

No, not exactly. I think motivation to be part of community or success story would be bigger than financial return.

Q: Will your CFP take any responsibility for a venture failing? How do you protect the investor?

We say it on our website, the investing in a startup is risky. We do not share the risk; it is totally investor's wisdom and decision.

Q: What are the main influencers for a successful campaign pattern?

What we think now is that - should we ask all the project owners to have a marketing plan for the campaign. We see marketing as the key - entrepreneur has to do a lot to raise money, mainly market their product & idea during the campaign. Of course if the pitch is good, product is good and the team is good; entrepreneur should promote the project.

Do we help in marketing? - Of course we work on our platform; we try to make better and user friendly so that it attracts the crowd. We also use social media & emails to promote the cases to investors. We have an international newsletter and Finnish newsletter, which we send through emails regularly. We keep notifying our customer regularly too. Also we use twitter and Facebook - we have synchronized it with our platform & made it easy for an investor to share to the larger community using social

media. And of course press releases! What I will do after this interview is - I will write a new press release regarding the new campaigns on our platform.

Q: Can you describe a typical investment flow in a campaign? Is there is pattern?

In the beginning it is active, in the middle it is quite usually & it picks up at the end. But it depends so much on what the entrepreneur does & how he/she campaigns.

What we have done on our platform is - We have given an option for the investor to subscribe to updates even if he/she has not invested yet. So when the entrepreneur can make a new update, the investor knows & can decide to invest.

To add to the point on how we differ from competition - we alone don't decide on who can come & raise funds on our platform. We make the crowd decide in a way - we have a pre round, where the entrepreneur pitches the idea & the crowd can vote. If we see enough interest & believe that they can raise the money, then we work further with the entrepreneur and start the real financial round.

Q: What are the main challenges for CF in operating in Finland?

The big masses have to start investing & not to be afraid of CF. People have to get used it. Even when we along with our competitors make a success story it helps to overcome this challenge. Every time when something good happens, people will trust CF more. On the contrary if we or our competitors make mistakes, the trust will be lower. Gaining trust of the masses would be the key. Secondly, we have to educate entrepreneurs on legalities and how to promote their campaign.

Q: Any comments about legislation w.r.t CF to Finland?

I hope the legislations are made easier with respect to Fundraising in Finland.

But I like the legislation with respect to equity CF; it has more freedom than in Sweden.

Do you see CF as a disruption to banks, VC's etc. or do you see them working together?

I think BA/VC's will work together with CFP's. Many BA's are interested in finding new interesting companies. At an international level, we have had experiences wherein some VC's who bring us a company & invest, but they also want to see the European crowd response. They want to mix the traditional ways of investing with CF.

Q: Personally what are your motivations to make an investment?

I have an entrepreneurial background, hence I relate more to entrepreneurs. As an investor, I am also registered on our platform - what I see in CF is that I can find very interesting business ideas which help me to express myself. If I can invest in that company& thus belong to a community and help that company it motivates me. It is not only about money for me.

Q: Interviewer Comments - If I have to invest, then for me motivations depends on the amount. If I invest 100 euros then motivation can be social, but if it is 10,000 euros - then I expect financial return?

Look, usually typical investors invest small amounts - Very rarely we see people investing huge amounts in CF. Hence mostly motivation is being part of community.

Interviewee 3

Lasse Mäkelä

Chairman of the Board, co-founder

Invesdor

Q: Could you introduce Invesdor to us?

Invesdor was an idea which just developed - While working on another project at some point we wanted to find out these free lancers working for this start up to own shares in that company & then we scanned the market & realized it is really complicated. We researched further on CF & found few in UK, etc. but found none in Finland in 2012. Then we just decided to start ourselves. Invesdor is an investment matching service for the entrepreneur to find suitable investors from the crowd. It is basically a marketing platform.

Q: What were the success factors for your business?

The strength of the team - we detailed investment, legal & IT skills & they bring a lot of trustworthiness into the company. As a startup or growth company it is important they would trust us. We are trying to create a hub; we want to be the stock exchange of unlisted companies. Anybody can set up such a platform. It is like a dating service :) But we have first mover advantage & we understand the legalities which is the main barrier. It is the question of "Is the crowd interested".

Our objective is to create a platform; where a growth company looking for funding - if they don't want to go to the stock exchange they should come to us. We are currently operating in equity as of now.

Q: How do you differentiate yourself?

How we differentiate from player's overseas - Main point is the understanding of legal framework of a country; if something works in UK it might not work in Finland. For example - Invesdor offers services in Nordic & we understand the legal framework there. This is true for CFP's operating in UK as well. This is a natural barrier for entry I should say. In terms of operational, there is not much differentiating factors. It comes down to the trustworthiness of team & understanding legal framework.

Q: Are there legal frameworks to control this parallel stock exchange (Point of view of government)?

Legislation is the key. There are few EU directives which are forcing some countries to follow some frameworks, but local countries have their own regulations. We have met with the ministry few times; we have a plan to have an association to lobby, but we have not yet formed anything. We are currently at the starting phase where people are trying to understand what this is all about, soon may be we will start to lobby, but now it's too early.

Q: Do you believe CFP is an orchestrator?

Legally we are an enabler; we are enabling growth companies to find investors. We also provide additional services like legal services via Invesdor, auditing services etc. We are hoping to sell incubator services as well. We are building an ecosystem as well.

Q: What is the value add to the investors?

Value for them - it is easy to invest in new companies. In general if you want to be a BA, then you need shareholders agreement, use a lawyer, negotiate a contract, etc. – It is so complicated. But with us it is much similar. It is a stock exchange world for startup companies.

Q: Who are your customers?

Both, the investors and Startups, we are a matchmaker. When we find both we earn our fee. Mostly we target private individuals & not investment companies. It is more rigid decision making in large companies; it takes more time.

Q: Do you have a screening process? Do you protect the investor?

No, we do not guarantee anything to the investor. Our company is a marketing platform via which the company offering reaches the crowd. We do have the screening process to improve their pitch, etc. & there is process when we qualify to go on our platform. There is a lot of work done on the pitch based on our criteria. To go on live - it have to be a incorporated company, we look at the idea, check on thee entrepreneurs, etc. - it is a lighter process I would say. **We are not seen in any legal framework - we are not broker dealer, we do not take risk.** This is a different business model.

We have a separate customer deposit account outside of Invesdor in the bank. It is completely outside of our business model. So if we go bust, then the investor gets his money back from the bank.

How we work? - If someone wants to put 1000 Euro in a company. He would get a bill of 1030; 30 euro is our fee (banking & back office costs).

Q: If there are many companies fail on your platform would it affect you?

Yes, of course it would. About 9 out of 10 startups fail; ratio is high. I think it would influence us, but it is a risk in investing in growth companies & I think the investor would understand this.

Q: How do you think this model would be sustainable with this failure rate? Do you think the public would buy this product?

This is same as BA, but in a small category. If there would be few angry birds which are successful; the model does fly. A lot of people do lottery, a lot of people do it. But here you can influence the company as well, people still do lottery. There is hope to earn :)

Q: Are you targeting BA's as customers?

BA's get deal flow anyways, they don't need our services. This CF is for people who want to be involved, but don't have full time. People who have invested in shares and mutual funds & want to invest in startups. Our typical investor; we don't have enough data yet. But our assumption is "a person who have invested in shares or mutual funds, in the range of 30 to 50 years, normally they will be male".

Q: Motivation for investing?

Financial motivation & social cause lies in everybody. The big investors or rich might have green values, but they might want financial return depending on amount of money. Personally, if I myself investing 100 euros, if it is a good cause I don't care about the return; I just give it. But if it is 10,000 euros, then I start to think about the return quite a lot; the good cause is still there, but it is secondary now. Everyone has a certain equilibrium level; trying to find the balance on motivation is interesting. I invested in CF for Climb station; it is a global product & I expect return. But I also invested in a brewery restaurant in Helsinki city - there my motivation was different; like nice to be owner, nice location, it is nice for me to belong to a community.

Q: Do you think BA's and investment bankers exploiting your services?

That is true; but on the other hand the volumes we deal with are too low for them. The 400,000 we make might bonus for a investment banker.

Q: Advent of web 2.0 & social media on CF?

I think social media is very important for our survival. Moreover, investment is very open. Before making investment was behind the doors, now it is quite open. It is a question of trustworthiness & is your idea good. Anybody can do a funding campaign these days.

Q: As an entrepreneur it is a risk for me get owned by someone?

Once you have opened the round and received the bids in, the entrepreneur can block the investor. The project owner has a final say if he does not like a investor at the end of the round.

Q: Can you describe investment flow in a CF round? Is there a Pattern?

We don't have exact pattern as such. When the window opens, at the beginning there are investments, but then it goes quite, but then at the end there is quite some flow. Once you have sense of urgency & market it more, there is flow of funds; it usually happens at the end. Unlike the stock market, there is no supply & demand - Prices remain steady, so the project owner can create a scenario to push his agenda. We try to increase willingness of investor to buy; we would promote the project owner to create hype.

Q: How would a Project owner protect his IP rights?

Totally up to him/her. CF does not work for everybody; if you are a company pending patents, this is not for you. You have to give information; if you can't it might be hard to sell.

Q: Do you think you are disruptive?

Yes I think we are for BA's. At least in Finland after friends and family, the only possibility is the BA's & after that VC's. You have Tekkes, etc - but all of them need own capital. In a sense CF overlaps this BA world. CF bridges the gap from F & F world to the BA world. Already in UK, where CF is very successful, you have cases where some big hot company bypass the VC's and go to CF. BA/VC give you lot of money, but get lot of control; whereas in CF you have the control even though you get lot of money. In a new business, if the management is weak & need help, then VC/BA can be good options, but otherwise CF is better.

No, we don't think we are disruptive to banks as of now. In Europe banks provide 70% of the financial needs of companies, but in US it is 20 to 30%. In US money comes from the free market. So it is quite different in Europe.

Q: What is the future of CF in Finland?

Finnish take some time to adopt a new idea, but once they understand it picks up. Marketing the concept is the key; at the moment CF seems to be hot & there is a lot of discussion, but I wouldn't be surprised if they get bored. CF is a new alternative way to raise funding, it's not the only way. You still have banks, BA/VC's - In the future I think CF will be used in combination with banks & VC's or so called traditional funding mechanisms.

Q: Do you think large MNC's adopt this?

I think so, reward based system might come in.

Q: Do you have any other comments on the market?

The people who invest in shares, 800,000 might look towards equity CF. There are early adopters, but a lot needs to be done.

Interviewee 4

Kari Komulainen

Director, Growth companies

Tekes - Finnish Funding Agency for Technology and Innovation

Q: Could you define Growth companies?

Growth companies defined as companies pursuing growth; company wants to expand business and management committed to this growth. Secondly C have an idea can be developed into a scalable business model and the market is there or is being developed. Third element specially, young one is that management team has competency and skill to enable company to take through this growth period. Our funding for companies depending on the research content and market is about 25 to 70% of the development cost. We are funding innovation projects in specific.

Q: Could you tell us about Funding range?

There is no max or min funding. Our average funding per project is about 300,000 Euros.

We don't have any time limit & I think it is very dependent on the nature of business and area of industry. For mobile apps it might be few months and pharmacy projects many months. There is no way of defining time, but I think what is important is the company makes a serious and continuous effort to grow their business & window of opportunity in the market continuous as market is instable and changes frequently.

Q: What is the Mission & Philosophy of Tekes?

We are public financed, which means that our funding is government intervention of the market & has to be justified as to why public sector is entering funding of free market. Even though we have banks, private financiers, VC's and so on is that private funding market has such failure that young ventures face difficulty in getting funding & private funding is scarcely available for research projects. Our Mission is to promote economic growth and well-being of the economy and society. Successful companies keep the economy going.

Q: Why do entrepreneurs come to Tekes? Where do entrepreneurs go first?

It is contrary; we make funding decisions that are conditional. Companies have an idea, but they are not getting private funding. We act as first mover, with the conditional funding decision written from us, they approach banks or VC's and we help them in seeking funding and we also fund partially.

Q: Is Tekes an investor or support organization?

Our Funding is grants, company never pays us back! We also have soft loans but when they pay back, they pay it directly to ministry of finance. What Tekes takes home from

companies, they grow and create benefit for society. We are definitely not investor, but a support organization. Our mentality is of an investor - we are evaluating companies on business merit. We do not provide funding for companies to develop technology without market potential; we do not provide money to hire researchers, etc. The goal is very much to help companies to grow their business. Our criteria is same as private investors, but what separates us is (i) we take more risk, but it has to be justified. We take more risk.

Q: How many companies do you fund per year? How many application you get?

We fund 1200 companies per year. We get about 2000 applications, but that is not a good criterion because we work with many companies before they submit an application.

Q: Do you consider entrepreneur as your customer?

Very much, we refer to entrepreneurs as customers. Our day to day functioning is customer centric.

Q: Have you heard about CF & your opinion?

CF is an emerging issue, in situation where young companies who find it difficult to raise funds from traditional means, it is a very welcomed as an additional funding option. Also from investors' point of view, it gives opportunity for interested individuals who can't become BA and invest in something that they believe in or in some innovation activities. It gives small time investors other opportunity than stock market. It is an alternative for investors.

Q: Is CF a good funding model for growth companies as well?

Yes in two ways - It is an additional source of funding in a situation where many young companies have difficulty in arranging funds. Secondly, CF is specially is a way of receiving customer feedback. If private citizens are interested in investing, it verifies that your idea will be successful in the market. Your investors can be your potential first customers; it is flavor of market potential of your product.

Q: What will be the future of CF in Finland? Is the Finnish public ready?

Like many new trends, they are early adopters. But for majority it will take a while for it to become a significant choice. In a financial market, the traditional instruments have not evolved much. We also saw a bad example in 2008; hence it might be attractive for early adopters. But I don't think it would become the main source of funding in near future.

Q: Can it be disruptive to traditional funding mechanism like banks?

I think compared to the volume of banks, I don't see banks losing business to CF. I think on the contrary, CF might increase the total volume of financial market &

increases the availability of funds for companies. CF might be an alternative for people or entrepreneurs who want to seek funding from conventional areas. In Tampere there is an example of Iron Sky, where they raised a part of their budget through CF. I think CF added to volume of funding that replaced traditional ways of funding.

Q: What is your Personal experience - what is failure rate of companies?

Tekes average is - 1 in 3 fail. 2 types of failures - The project can't be completed; the company has taken such a hard problem to solve & can't find a solution. Second - project is successful & it fails in the market, basically our market guess goes wrong here. We do take risks in funding; we behave differently than cautious financiers.

Q: Tekes is an expert – But One in three projects fail? Will CF expose the crowd to these risky companies?

I would use "wisdom of crowd". Large number of decision maker's i.e. joint effort and evaluation is better than few, but on the contrary, if the first movers do something stupid, then others might just follow.

I think it depends on how market behaves - let's take Iron Sky as example - when people pay 50 euro for the production of movie, they will see the movie & also ask their friends. This crowd of investors paves the way for creation and expansion of the market. So the role of crowd is not only sources of funding, but they also contribute in development through comments, etc. & finally when product is released, they are certainly very keen first customers. Therefore the Crowd investors have multiple role is supporting business development & innovation.

I think CF is a welcome addition to the array on funding market, but it will take a while before it becomes trend. I don't think banks will be obsolete because of CF and it should not be the goal of CF either.

Q: What are your motivations to invest?

With the exception of ethical funds, the investment instruments that are available are very much about profits. You rather do not have any control where your money goes, but only can decide how safe it is and what is risk & ROI. Therefore CF is existing new comer as it would give me opportunity to invest in something that gives ROI but also gives a pleasure of being part of community or group.

Q: Personally would you invest in this where there is non-financial benefit?

Yes, Definitely!

Q: Who do you think would be interested in CF in Finland?

Obviously it would young ones, but on the other hand, society is becoming fragmented and there are more & more interest groups. The investment is not totally dependent on age or demographics.

Interviewee 5

Vesa Leinonen

Customer Relationship Manager - Tampere

Nordea Bank

Q: What is a startup company?

It is a company starting from scratch. They contact us and then we try to understand their business. We segment them in a triangle, wherein Startup Company reaches 500,000 we promote them to mid-sized & next would be mid-sized and then on the top of the triangle we have companies listed in the stock exchange.

In terms of our lending policy, most likely startup companies would not require that much funding like mid-sized ones. Typically the requests we at Nordea get from startups is from 10,000 to 50,000 euros. In the mid-sized segment we go up to 1 million Euros. Mid-sized companies in Tampere region are of a turnover from 500,000 to 5million Euros (5 to 50 employees).

Approximately the percentage of lending would be 50% mid-sized, 20% startups and 30% the rest.

Q: Your comments about the conservatives of lending to Start ups?

In general we are conservative. Our aim is to reach #1 in Nordic region, be as profitable as possible and keep our costs low. Hence we try to low risk credit policy and look for profitable customers. Individually case by case we try to play safe. We work very closely with Finnvera and try to divide the risk with them. In most cases Finnvera would finance them than banks. All of the banks mostly commercial banks, focus of lending is shifting towards companies who have proof of cash flow and are established rather than startups.

Q: What is the banking sentiment in Finland?

A lot of startups will discuss financing with us. All in all we have excess liquidity to be distributed but most of our customers are slowing down their operations. For ex: Danske bank is not even financing their current customers. But typical small Finnish banks have different policy than we do; then give credit to start ups than we do. Basically they will give you up to 20 to 30,000 euros, but more than that they would think twice.

We are not trying to avoid startups, but we try to get Finnvera on board to avoid risks.

Q: Do you consider yourself as lending organization?

We would like to see ourselves as consultants. We assist startups in initial phase; we assist them by going with them to Finnvera & when the company grows our role increases. We hope to be both (funding & support), but depending on current situation there is no automatic lending, we deal it case by case. We need proof of cash flow

and/or a very good business plan showing forecasts for next 12 months. Economic return is our main priority.

Q: What is the influence of government on lending?

Not on corporate lending, but on household loans they do have influence on mortgages.

Q: I explain CF for few minutes and then ask a question- Do you see Crowd Funding as threat to bank lending?

NO, we don't see it as a threat for near future. The more sources of funding for startups we see as a positive sign.

Q: Do you consider BA & VC as Competition?

NO, we are ahead of them. On the contrary FIBA has been in touch with Nordea & these BA's would like to share risks with banks on funding startups & we look forward for such partnerships.

Q: Pre and post 2008 crisis on lending to start ups?

Up until 2008 we used lend aggressively. Credit policy was loose; I have seven colleagues & all of us had individual budgets & all of us were looking for lending more & making profits. In 2008 we hit a big wall, pre 2008 granting loans up to 10 years was no big hassle, but when 2008 hit we pushed the brakes very hard & the max duration was made three years. You can imagine that's a big difference; this had result on customers asking for funds. Now 5 years is the standard, the credit maturity (if the company can't deal with 5 years we don't loan them), so you see we look at safe customers.

Let's say pre 2008 (for every 300 applications we pass 100) & Now may be 50. In the last 12 months it's been less than 50. Last next month's there has been very little demand for investment financing. Working capital yes! but no big projects or machines. The mid-sized companies are on a stand still.

Q: Are the laws good enough in Finland?

In Finland, bankruptcy laws are good. At Nordea we do things by the book & laws are strict. In solvency cases, banks are flexible & we negotiate. That policy has changed post 90's when economy went bankrupt for variety of reasons; as a result of that Nordea (predecessors), they acquired large assets, than money. So now the banks negotiate for get banks. In Finland, we are straightforward, so no middle ways.

Numbers - Startup companies we feel 1 in 10 make it. They fold their operations & banks won't make loss, but 2 out of 9 won't be able to pay back at all - it is a gut feeling in the banking industry. It is not policy of the bank, but it depends on area. For ex major cities like HEL, TAM, and TUR - Universities generate more startups than others.

Q: Personal - How do you make investments?

I am 39 years old. Typically Finns have excess liquidity in their bank accounts. Currently Finns are moving towards Stock market & mutual funds (75 in interest rate & 25 in share market). Personally I have 5 children, I invest in hobbies :) & I invest into property. I have 75% of assets in stock exchange & may be 25% in Funds (Voluntary pension funds). I have thought of investing in startups. I see startups & see that some of them will make & get good return on investment.

Q: Risks of Investing?

A friend of mine established a company to consult startups to get finance. As a personal point of view that phenomenon is growing. Hopefully FIBA & consultants would help startups; I don't see Nordea to be a front runner in this. But see small banks, independent investment companies, etc. would be front runners.

As a personal point of view, I would like to know where my money goes like stock market. My motivation would be financial as of now, may be if I have excess liquidity then may be something else. In my opinion, people in their 50 to 60 are risk takers - because they have paid their mortgages & they earn now so they would be investing in entrepreneurial things. Then probably 20 & 30 - they are children of these 50 to 60 year old - Affluence of Finns has grown over years – Even as student you get 20,000 euros and you have an opportunity to invest in something like this.

Interviewee 6

Kristoffer Lawson

Co-Founder

Holvi

Note: The full transcript of this interview was not made and only the relevant parts of the interview to the current thesis topic is shown below.

Q: Can you describe Holvi?

Holvi is replacing traditional banks completely. We are providing a service that is not just a bank, but more than a bank. We don't think banks manage all aspects of things that people do with money & Holvi aims to fill that gap. Money enables everything we do; yet we visit the bank once a month to pay the bills. So we see a mismatch with money & what we do in our lives. Hence Holvi is a new type of banking with integrated features of managing budgets, accounting, projects, etc. You can share the account with your entire team.

Q: What are your objectives and goals? What motivated your business model?

Our goal is to make substantial changes in the banking system. We want to be the largest financial service in few years. We at Holvi are entrepreneurs ourselves; I myself am the founder of the digital art festival in the Nordics & many other projects. While

doing these projects, I always had problems on how to manage money & getting everybody on board, managing all the bills, income etc. & I just felt we need a service in addition to the banks to make our lives easier. That is how idea of Holvi was born.

Q: Do you consider yourself as a disruption for banks?

I think so; we would like to severely disrupt the banking system.

Q: Why did you start the business in Finland?

We are based in Finland, so first we wanted to serve the needs here. Secondly there is amazing technical talent in Finland. Further, Finland is also a good place to build your first financial service because there is very low fraud. It is quite easy to start something new here.

Q: Is the customer in Finland ready for such disruptions?

Businesses, organization and associations are our customers currently. The kind of service that we have built is quite radical to the existing banking system. It takes a leap of imagination and thought of people to jump from where they are & things they are used to with their banks to something so modern. Once they see something good happening, they are ready to make that leap. We opened in last autumn & been operational for few months; already seen volumes of several million euros. So there is a need in the market.

Q: How are the legislations in Finland? Are the existing legislations for financial transactions strong enough?

The legislation here in Finland is better and robust than in US. The new regulations are lighter than banks, as we do not carry any risks with customer funds. This always us to function smoothly, which otherwise would not have been possible. Moreover in the EU, you operate in one country and then spread all over.

Q: Advent of web 2.0 & social in business success?

I think web 2.0 has improved the user experience on the internet & us being a web service we do use them effectively.

Q: Do you think your Finnish crowd has a high innovative orientation in their behavior? Do they adopt new innovations easily?

I am not sure if that is true; Finns in general are conservative when it comes to new services. I think places like Silicon Valley are more active to try new things. I think there are other countries that are more open to new innovations than Finns. But of course we are better off than more conservative countries for example France when it comes to banking and new financial services.

Q: What do think of CF in the EU and Finland may be in next 5 years?

I just came in from Amsterdam last weekend and I think Finland is currently behind from what is going on elsewhere. There are already a number of services running for quite some time in the Netherlands. I think the phenomenon is coming to Finland. CF is quite intriguing way; it changes the whole model of setting up a company and developing a product because you are putting it out there at a very early stage and getting people to engage and actually put money to say "this is something I want to happen". This is best possible measurement that you will have to know if people want to be part of the project or want that product at all. It is not going to completely replace existing models for financing businesses, but it's going to create a whole new way of financing. It is going to expand the possibilities of companies to finance their ideas and set up new companies. I think there is going to be a lot of action in this area during the next few years.